May 2006
IMF Country Report No. 06/158

Jamaica: 2005 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Jamaica, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 14, 2005**,** with the officials of Jamaica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 9, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of March 21, 2006 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 24, 2006 discussion of the staff report that concluded the Article IV consultation.

The documents listed below have been or will be separately released.

Selected Issues Paper
Financial System Stability Assessment

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2005 Article IV Consultation

Prepared by Staff Representatives for the 2005 Consultation with Jamaica

Approved by Ratna Sahay and Matthew Fisher

March 9, 2006

Context. Jamaica is a large Caribbean economy with a very high debt burden. It has a complex financial system—banks and securities, insurance, pension, and asset management companies are all present with sizeable holdings of government debt. The authorities have adopted a medium-term strategy to reduce the debt burden through fiscal consolidation.

Fund relations. Jamaica is under intensified Fund surveillance. Staff monitor the implementation of the economic strategy formulated by the authorities without reaching prior understandings with the Fund. Interim staff reports are issued for information of the Executive Board in between Article IV consultations. The 2004 Article IV consultation was concluded by the Executive Board on August 3, 2004. Since then, two interim staff reports have been issued—the most recent was in June 2005. Jamaica has accepted the obligations of Article VIII.

Recent developments. Economic performance has been adversely affected by a series of shocks. Real GDP contracted sharply in late 2004 following the devastating effects of Hurricane Ivan. Thereafter, while there has been an economic recovery, it was weakened by a drought as well as the remarkably active and severe 2005 hurricane season. Inflation picked up sharply due to rising agricultural prices and pass-through of high international oil prices, but it has declined somewhat recently. The fiscal targets under the authorities' program have not been met.

Discussions. A staff team comprising Sanjaya Panth (Head), Rodolphe Blavy, Goohoon Kwon and Rafael Romeu (all WHD), and Piyabha Kongsamut (PDR) held discussions in Kingston during December 1–14. The mission met with Finance Minister Omar Davies, Bank of Jamaica Governor Derick Latibeaudiere, Financial Secretary Colin Bullock, other senior officials, and representatives of the private sector and the opposition. Ms. Sahay (WHD), Mr. Corker (MFD and mission chief for the FSAP), and Mr. Campbell (OED) joined the team for the final discussions.

Contents Page

EXECUTIVE SUMMARY

Jamaica is a large Caribbean economy with a high debt burden and a record of relatively low economic growth. Public debt currently stands at about 135 percent of GDP but has remained high throughout the past 15 years. The high debt burden has rendered the economy vulnerable to swings in market sentiment and contributed to high and volatile inflation as well as low economic growth. It has also placed severe constraints on the flexibility of macroeconomic policies.

There have been political changes recently and parliamentary elections are due by 2007. On February 25, 2006, Ms. Portia Simpson Miller, Minister for Local Government in the current cabinet, emerged victorious in a close contest for the presidency of the governing People's National Party (PNP) and is expected to be appointed Prime Minister. The PNP will face the opposition Jamaica Labor Party (which itself underwent a leadership change in 2005) in the next parliamentary elections.

Recent economic performance has been adversely affected by a series of shocks. Real GDP contracted sharply in late 2004 following the devastating effects of Hurricane Ivan. Thereafter, the incipient economic recovery was weakened by a drought and a remarkably active and severe hurricane season in 2005. Agricultural prices soared and, with the pass-through of high international oil prices to the domestic economy, contributed to an upsurge of inflation, which peaked in September 2005 but has since moderately declined. The authorities' FY 2005/06 fiscal targets have not been met so far.

Recent economic policies have been guided by a medium-term socio-economic policy framework adopted by the government in early 2004. The authorities' economic strategy under this framework, which continues to enjoy broad popular and donor support, has been to seek to reduce public debt from over 140 percent of GDP in FY 2003/04 to around 100 percent by FY 2008/09. A centerpiece of the strategy was the balanced budget objective for the current fiscal year.

The discussions focused on the needed policy response to recent developments as well as to the long-term challenges confronting the economy. The authorities remain determined to limit the temporary fiscal deficits and regain a balanced budget over the medium term. The staff suggested eliminating deficits sooner if the economy improves. On monetary policy, the interest rate differential vis-à-vis the United States has narrowed and staff advised that action be taken preemptively to confront pressures in the capital account. To enhance growth and mitigate risks, the authorities were encouraged to continue with structural reforms, including with respect to taxation and financial sector strengthening. On the latter, the authorities noted the FSAP's favorable assessment of the steps taken so far and their intention to continue with reforms.

I. Background and Perspective

1. **Jamaica is one of the larger Caribbean economies, with income somewhat below the regional average**. As the third-most populous Fund member country in the region and the largest among the 12 English-speaking independent Caribbean nations, Jamaica occupies a preeminent position in the region but its economic performance has generally lagged that of its neighbors. As a result, per capita income is lower than the regional mean. Jamaica also fares relatively low on human development indicators, although life expectancy and poverty rates are better than in most other countries in the Caribbean.

Jamaica and the Caribbean: Selected Indicators

	GDP (billions of US$)	Population (million)	GDP per capita thousands of US$)	Income Inequality 1/ (GINI index)	HDI 2/ (Ranking)	Illiteracy (Percent)	Life Expectancy (Years)	Poverty (Percent)
		(2003)		(Most Recent)	(2005)	(2001)	(2000–05)	(Most Recent)
Jamaica	8.1	2.7	3.0	0.38	98	13	76	19
Caribbean 3/	51.8	23.6	5.4	0.38	78	10	69	28
Highest	16.5	8.8	16.7	0.65	30	49	77	66
Lowest	0.3	0.04	0.5	0.10	153	1	50	12
English Caribbean	31.1	6.1	6.3	0.40	70	6	68	25

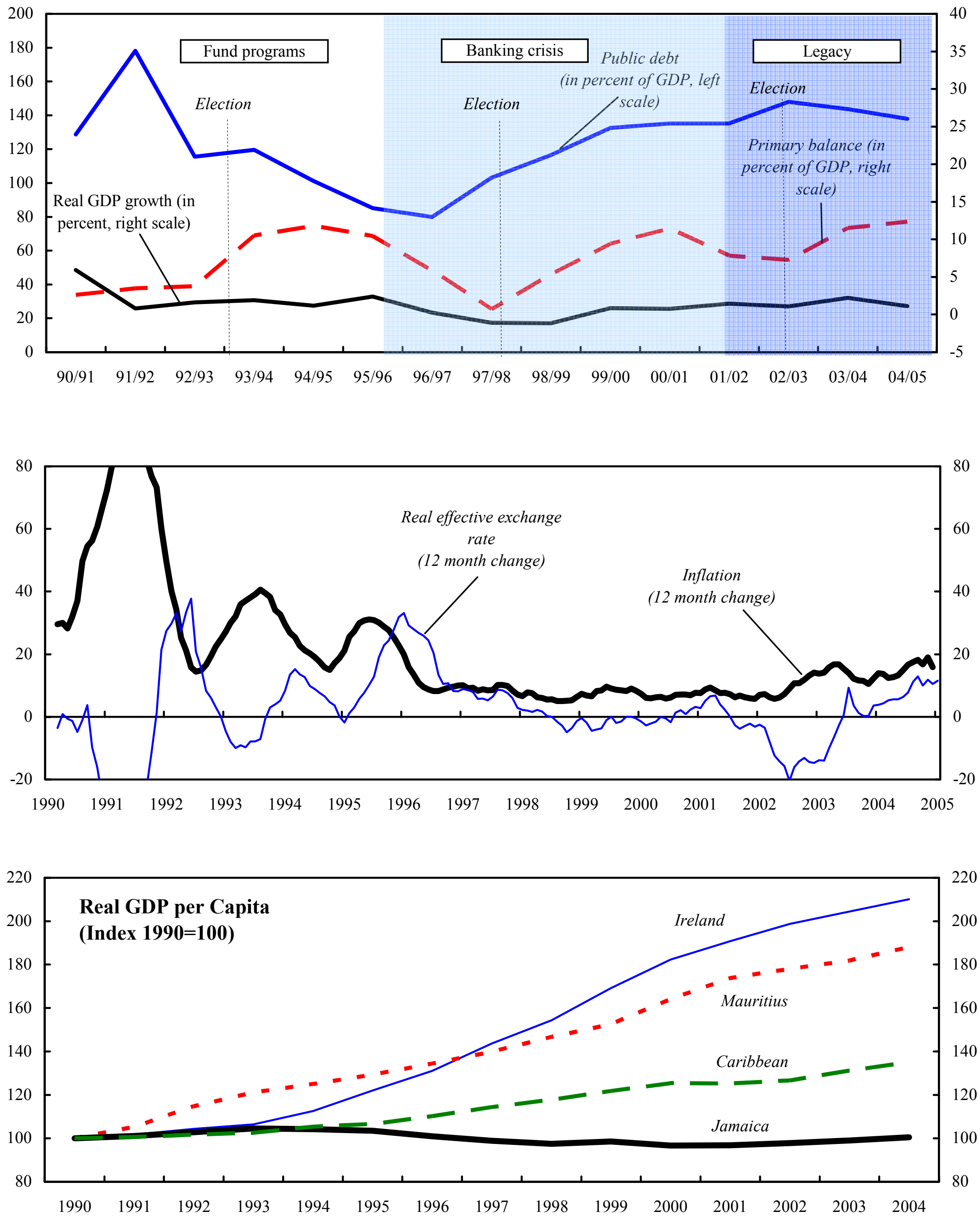
Sources: UNDP Human Development Report; and IMF and World Bank estimates.

1/ High numbers indicate greater inequality.
2/ Human development index.
3/ Averages for Caribbean except GDP and population, which are totals.

2. **A salient feature of the economy during the past 15 years has been the crushing public debt burden**. In the early 1990s, debt was reduced significantly through Paris Club reschedulings and fiscal adjustments under Fund-supported programs, the last of which expired in March 1996. Following a severe banking crisis that same year, the government eventually assumed financial sector liabilities amounting to about 40 percent of GDP (Figure 1). In 1997, coincident with elections, the fiscal performance also deteriorated. Since then, Jamaica has been grappling with a legacy of debt averaging between 130–145 percent of GDP. This debt has rendered the economy vulnerable to market sentiments and contributed to high and volatile inflation as well as low economic growth.

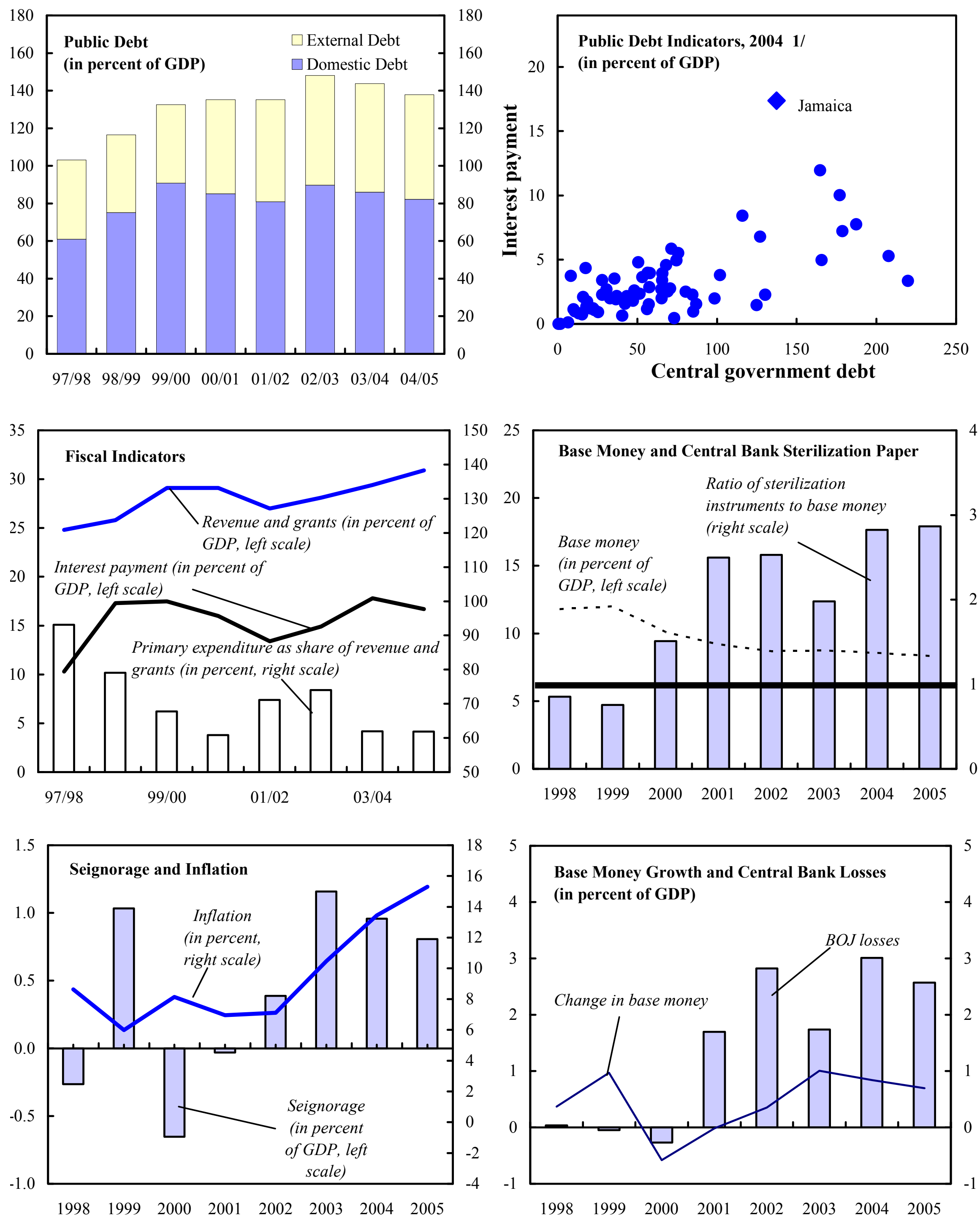
3. **Going forward, the room for policy maneuverability is very limited**. The mix between local currency and dollar-denominated debt, and the significant reliance on variable rate instruments, render the debt sensitive to exchange rate as well as interest rate changes (Figure 2, first panel). Both the debt stock and the interest bill are among the highest in the world (second panel) and to help meet the debt service, primary surpluses of 11–12 percent of GDP were generated over the past two fiscal years. This has required high levels of taxation and put a severe squeeze on non-interest expenditures (third panel), particularly capital expenditures, constraining the flexibility of fiscal policy. As regards monetary policy, demand for the Jamaican dollar is low—real base money has been declining and is exceeded by the outstanding stock of central bank bills (fourth panel). Inflation is high despite seignorage averaging just about 1 percent of GDP per year (fifth panel) and, in real terms, central bank losses have exceeded the growth of base money, resulting in upward pressures on debt, since central bank losses are taken over by the government (final panel). Under such

Figure 1. Jamaica: Macroeconomic Performance, 1990–2005



Sources: Jamaican authorities; IMF, World Economic Outlook; and IMF, Information Notice System.

Figure 2. Jamaica: Key Macroeconomic Indicators



Sources: Jamaican authorities; and Fund staff estimates and projections.
1/ Includes 67 emerging market economies.

circumstances, the authorities' pursuit of multiple objectives—reduce debt, support growth and contain inflation—have severely complicated the task of conducting monetary policy.

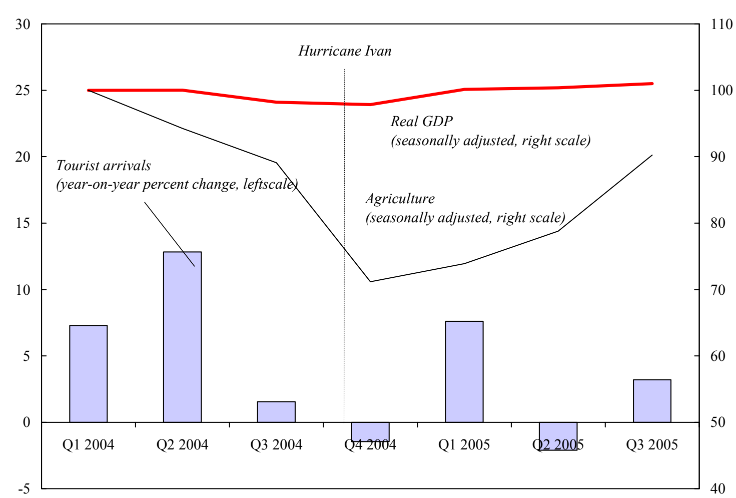
4. **In recent years, the authorities' policies have largely been consistent with Fund advice**. In the wake of financial turbulence in 2003, the authorities announced a medium–term strategy for debt reduction and have implemented fiscal policy towards achieving this goal. A comprehensive tax review was carried out and some reforms were initiated, albeit in a piecemeal fashion, under the FY 2005/06 budget. On exchange rates, the Fund has advocated greater flexibility to absorb shocks and maintain competitiveness and the rate has been allowed to move in recent years.

5. **With the recent change of leadership in the governing party, attention is shifting towards national elections to be held by 2007**. The People's National Party (PNP), led by Prime Minister P. J. Patterson starting in 1992, has been in office since 1989. Mr. Patterson had earlier announced his intention to step down and on February 25, 2006, Ms. Simpson Miller, Local Government Minister in the current cabinet, emerged victorious in a close contest for the leadership of the PNP. Other contenders for the Party Presidency had included National Security Minister Phillips and Finance and Planning Minister Davies. In line with tradition, Ms. Simpson Miller is soon expected to be appointed Prime Minister—Mr. Patterson has indicated that he will remain in office for another four to five weeks to ensure a smooth transition. The next parliamentary elections are due by October 2007. The opposition Jamaica Labor Party (JLP), which controls most local governments, has also recently undergone a leadership change—Mr. Bruce Golding took over in 2005 from Mr. Seaga, who had led the party for 30 years.

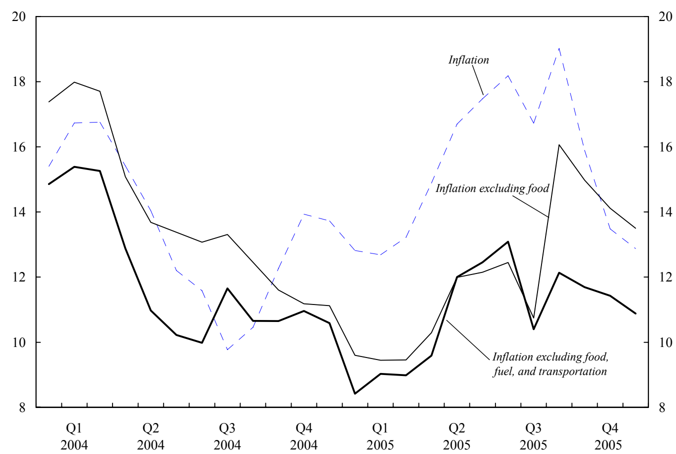
II. Recent Developments

6. **The economy has been buffeted by shocks and domestic demand has been feeble**.

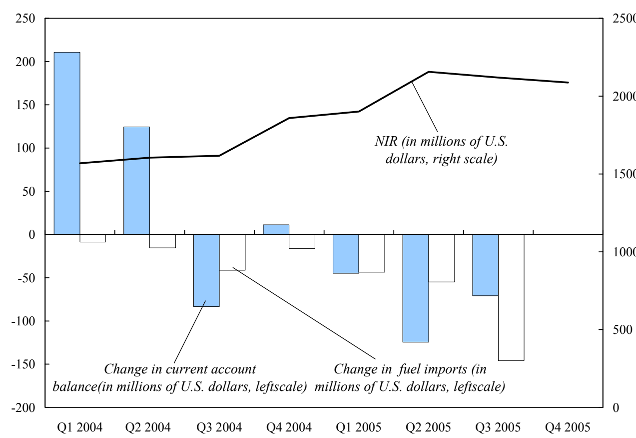
- **Shocks continued to sap the economic recovery following Hurricane Ivan in 2004 and a remarkably active 2005 hurricane season exacted a further toll**. Real GDP contracted sharply in late 2004 following the devastating effects of Hurricane Ivan. Thereafter, while output recovered, it was dampened by the poor performance of agriculture, which suffered from a drought into early 2005. This was followed by high winds and severe flooding from three major hurricanes during July–October, which caused further crop loss, infrastructure damage, and a sharp drop in tourist arrivals.



- **Inflation remains high and volatile—accelerating sharply through to September 2005 due to the supply shocks but falling thereafter**. Consumer prices registered a marked increase at end-2004 in the aftermath of Hurricane Ivan. Thereafter, annual headline inflation continued to pick up, reaching a high of 19 percent in September 2005, before falling back to 13 percent at end-2005. This compares to an outcome of 13¾ percent a year earlier and the authorities' target for FY 2005/06 of 9–10 percent.[1] Agriculture, which weighs heavily in the consumer price basket, was responsible for most of the surge in prices. The upward spiral in energy prices also played a part since changes in international oil prices are fully reflected at the retail pump in Jamaica.



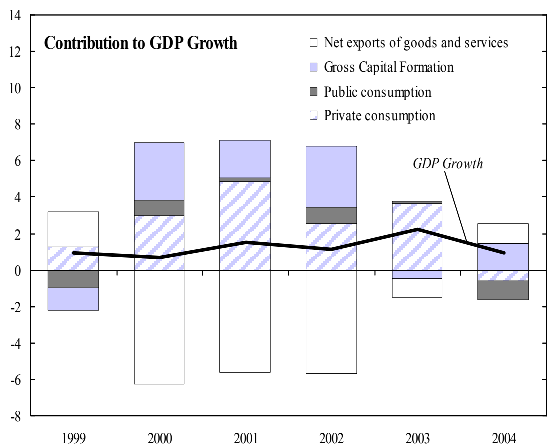
- **The external current account balance weakened on account of the shocks, with some reversal in capital flows occurring during the second half of 2005**. Export performance weakened because of crop damage while imports shot up mainly due to higher oil prices. As regards the capital account, the government successfully tapped global financial markets to finance the budget at relatively favorable spreads of 420–530 basis points and private inflows also strengthened in early 2005. As a result, net international reserves (NIR) increased rapidly through June, before reversing course in the third quarter of 2005 as capital outflows led the Bank of Jamaica (BOJ) to step up market interventions to support the Jamaican dollar.

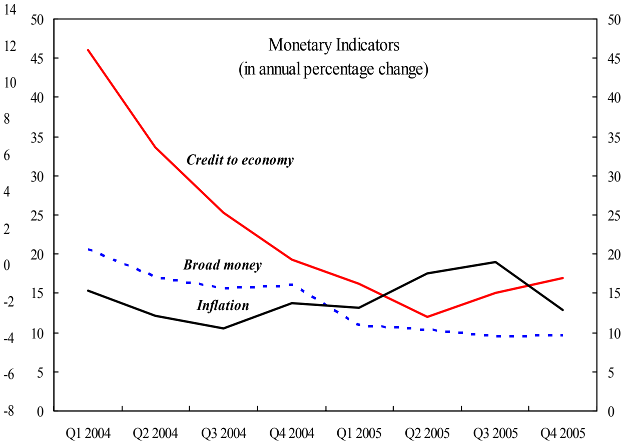


- **Available indicators suggest that aggregate demand has remained weak**. Public consumption has fallen in recent years due to the strong efforts at fiscal consolidation. Private demand was anemic during 2004 and has continued to remain so as indicated by recent weaknesses in consumption taxes and the consumer confidence index. As a

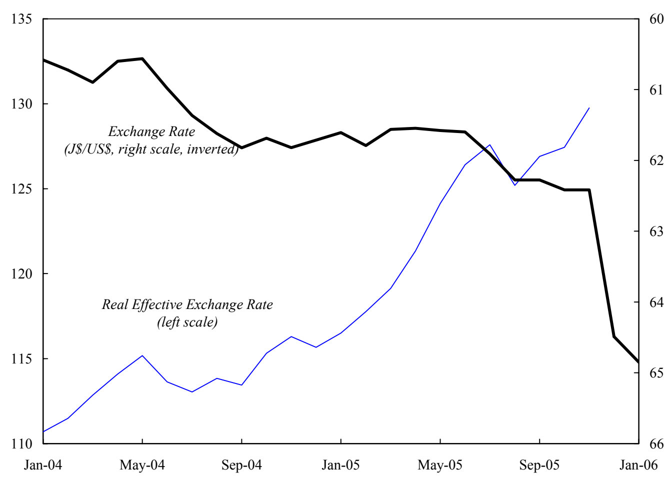
[1] The fiscal year runs from April 1 to March 31.

result, demand for money also fell—both base money and broad money declined significantly in 2005 in real terms, following the upsurge in inflation.[2]





- **The nominal exchange rate has depreciated in recent months following a period of relative stability**. After remaining relatively unchanged for about a year, the Jamaican dollar depreciated briskly during June–November 2005. The pace of depreciation has moderated somewhat since then, reflecting the seasonal pick-up in tourist spending. In real effective terms, however, given the high inflation, the Jamaican dollar appreciated by nearly 10 percent during 2005.



7. **Fiscal targets have been missed**. Hurricane Ivan was largely responsible for the failure to achieve both revenue and expenditure objectives in FY 2004/05. Relative to the authorities' targets, the revenue shortfalls have widened during FY 2005/06. As regards expenditures, notwithstanding the

	FY 2004/05			FY 2005/06 Nine Months 1/		
	Target	Actual	Deviation	Target	Actual	Deviation
	(In percent of GDP 1/)					
Budget balance	-3.5	-4.9	-1.5	-2.4	-4.5	-2.1
Revenue and grants	31.8	30.8	-1.0	22.6	19.7	-2.8
Of which: tax revenue	28.8	27.5	-1.4	20.0	17.6	-2.4
Non-interest expenditure	17.9	19.1	1.1	14.4	13.9	-0.6
Of which:						
Capital expenditure 2/	1.5	1.9	0.4	2.4	1.8	-0.6
Interest	17.3	16.7	-0.6	10.6	10.4	-0.2
Domestic	13.5	13.1	-0.5	7.8	7.7	-0.1
Foreign	3.8	3.6	-0.2	2.7	2.6	-0.1
GDP	556.2	556.3		642.9	646.0	

Sources: Jamaican authorities; and Fund staff estimates.

1/ Annual GDP used for nine months, projected budget GDP (J$642.9 bil.) is used for target, and revised projection (J$646 bil.) is used for actual. Fiscal year runs from April 1 to March 31.
2/ FY 2005/06 columns include deferred financing items.

[2] Given the increasing importance of non-bank financial entities in recent years, these figures may understate the overall demand for liquid assets. A consolidated financial survey, incorporating commercial banks as well as entities such as securities dealers, is not available.

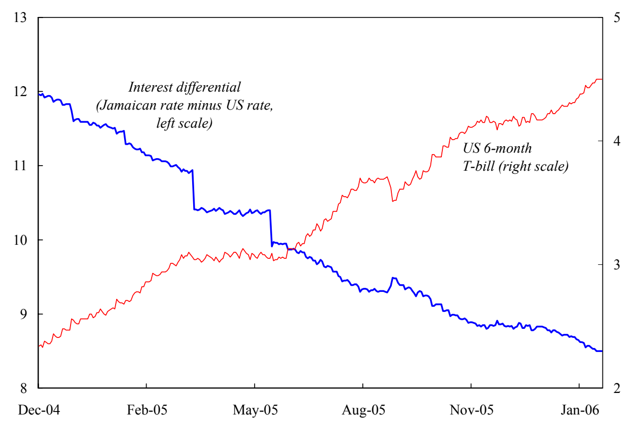
flooding and infrastructure damage associated with the 2005 hurricanes, spending was, until very recently, kept under tight restraint—in particular, capital expenditures were squeezed further. The large revenue shortfalls imply, nevertheless, that the authorities' balanced budget objective for FY 2005/06 is out of reach. The shortfalls have, however, been financed successfully, including through the very successful placement of several Eurobonds.

8. **Monetary policy has been geared at containing inflation by targeting base money while also seeking to engender a sustainable reduction in interest rates**. The BOJ aggressively cut interest rates through May 2005. Nevertheless, with strong capital inflows, foreign reserves increased rapidly during the first half of the year. The reserve build-up was fully sterilized by sales of central bank bills; indeed, base money contracted sharply in nominal terms during the period. With inflation still accelerating, however, the BOJ subsequently halted its rate cuts, but the Jamaican-U.S. interest rate differential has continued to narrow, given the successive rounds of monetary tightening in the United States.

Contribution to Base Money Growth (year-on-year)

	2004 Q4	2005 Q4
NIR	132.4	35.9
NDA	-118.1	-28.9
Of which:		
Net claims on public sector	33.0	18.8
OMO	-133.0	-63.6
Others (including credit to banks)	-18.1	15.9
Base money	14.3	7.0

Source: Jamaican authorities.



III. Outlook for FY 2005/06 and the Medium Term

9. **The outlook is affected by the impact of recent developments on the government's medium-term plan to reduce the high debt through fiscal consolidation**.

- **Economic policies in Jamaica have recently been guided by a medium-term socio-economic policy framework adopted by the government in early 2004**. The authorities' economic strategy under this framework, which continues to enjoy broad popular and donor support, has been to seek to reduce public debt from over 140 percent of GDP in FY 2003/04 to around 100 percent by FY 2008/09. A centerpiece of the strategy was the balanced budget objective for the current fiscal year. As outlined in the government's document, the achievement of this and other medium-term macroeconomic targets was, however, predicated on several critical factors: (i) absence of shocks to production; (ii) increase in confidence and an accompanying sustained fall in interest rates; (iii) containment of the wage bill in nominal terms; and (iv) maintenance of a high primary surplus.

- **The government's economic strategy has, however, encountered several unanticipated developments for which contingencies had not been spelled out a priori**. The external environment has been substantively less benign, and is likely to remain so, than that projected earlier. Oil prices and global interest rates, in particular, have been significantly higher than had been envisaged. On the domestic front, supply shocks have lowered GDP and raised inflation relative to expectations and the higher inflation has, in turn, put pressure on the wage bill.

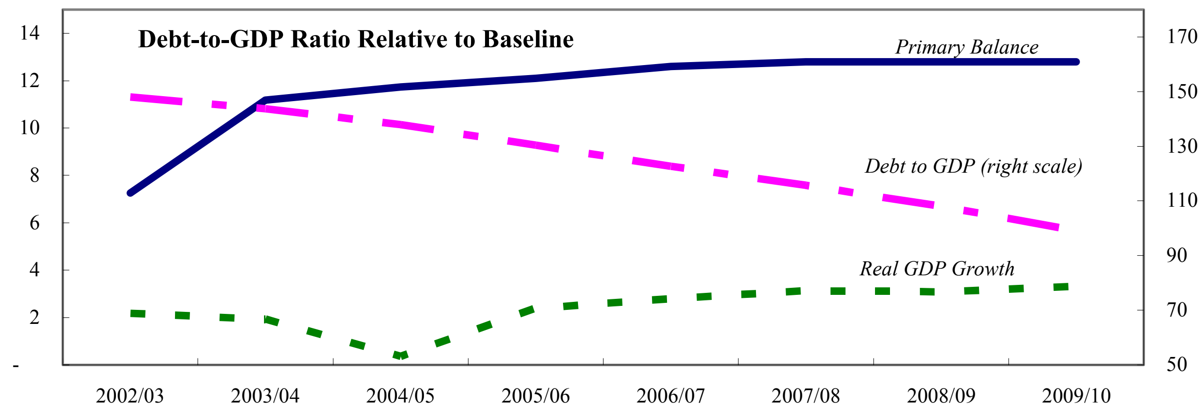
10. **Against this difficult background, the imperative is to formulate a revised medium-term path that seeks to continue to make adequate progress at debt reduction**. The staff's baseline projections (Tables 1–6 and Figure 3 top panel), represent one such scenario. Under this scenario, real GDP growth of 2½ percent is expected in FY 2005/06 on the basis of current trends. This is well below the growth rate of 3¾ percent underpinning the budget but still denotes a substantial recovery from the outturn of under ½ percent growth in FY 2004/05. Growth is projected to pick up, to 2¾–3¼ percent per year, over the medium term as ongoing projects, especially in hotels and the bauxite sector, come on stream. With this output trajectory, and provided that the government can successfully limit the budget deficit to about 1½ percent this year and about ½ percent in FY 2006/07, the debt ratio should continue to decline, albeit to a still very high level, reaching 100 percent of GDP by FY 2009/10, or a year later than originally envisaged.

11. **This revised debt trajectory remains, however, subject to the same risks as before**. First, shocks that lower growth by 2 percentage points per year relative to the baseline will add 10 percentage points to the debt-to-GDP ratio by the end of the projection period (Figure 3, second panel). A weaker fiscal effort (by 1½ percent of GDP per year) than envisaged in the staff's baseline will also increase the debt-to-GDP ratio by 6¼ percentage points by the end of the projection period. Finally, while the baseline incorporates the impact of some moderate increases in global and domestic interest rates, sustained high rate hikes will render the 100 percent debt-to-GDP ratio objective out of reach even by FY 2009/10. In particular, with gross annual financing needs estimated at 20–25 percent of GDP (over half of GDP if central bank bills are also included), the debt dynamics remain highly sensitive to macroeconomic volatility and market sentiments.

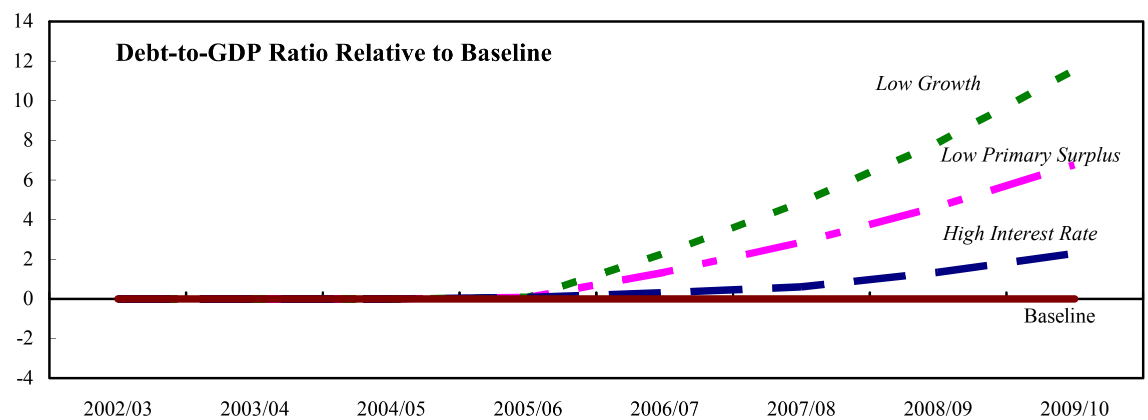
12. **The projections also underscore the benefits of taking early fiscal action were further shocks to materialize**. For example, the impact on the FY 2009/10 debt ratio of higher interest rates (by 150 basis points) throughout the medium term could be offset by fiscal measures amounting to 0.4 percent of GDP, if taken now (Figure 3, bottom panel). Instead, waiting until the end of the projection period will require measures amounting to 1.8 percent of GDP. The results are similar for shocks affecting the primary balance. Going forward, it is therefore important for the government to spell out in advance contingent measures to be taken if faced with further shocks.

Figure 3. Jamaica: Medium-Term Macroeconomic Sensitivity Analysis, 2002–2010

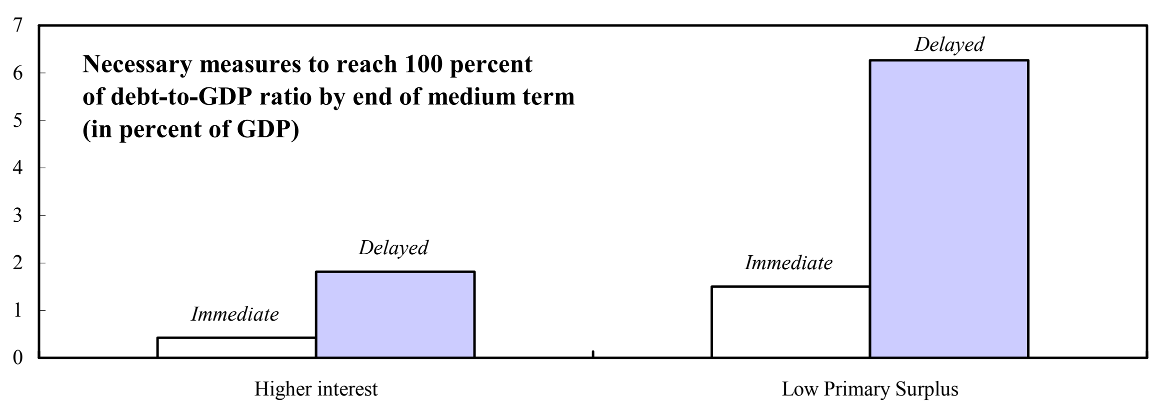
Jamaica's high primary surplus should lead to steady debt reduction under the baseline...



... but lower growth, fiscal slippage, or higher interest rates could hamper consolidation efforts...



If shocks occur, delays in taking measures will be costly.



Sources: Jamaican authorities; and Fund staff estimates.

IV. Report on Policy Discussions

13. **The discussions focused on the necessary policy adjustments in response to recent developments, as well as the long-term challenges confronting the Jamaican economy**. On the fiscal front, the focus was on the appropriate pace and composition of adjustment toward regaining the balanced budget objective. On monetary and exchange rate policy, the short-run challenges posed by the changed global environment, as well as the constraints implied by the high debt burden were discussed. The discussions also covered the key issues of enhancing growth and further reducing vulnerabilities as part of the drive to sustainability.

A. Fiscal Policy

14. **The authorities remain committed to achieving a balanced budget over the medium term and to bringing about a steady decline in the debt ratio despite the deviation from the fiscal targets in the short-run**. They emphasized the strictly temporary nature of the current deviations and underscored their resolve to achieve balanced budgets by FY 2007/08. They further indicated that in the interim, they would try to minimize the deficit to the extent feasible, likely in the range of 2–2½ percent of GDP for FY 2005/06 and about 1 percent of GDP the following year. These deficits were necessitated by both the weaker-than-envisaged revenues and the likely need for some additional appropriations for spending in FY 2005/06, mostly on account of increases in allowances and pensions due to the significantly higher-than-envisaged inflation. There were also severe expenditure pressures stemming from the extensive flooding and road damage associated with the hurricanes, though some of these expenses would have to be pushed out to FY 2006/07.

15. **The mission noted that the revenue shortfall appeared to reflect policy slippages and declining tax compliance but agreed with the authorities that other factors were also at play**. Some revenue measures underpinning the FY 2005/06 budget were not implemented as or when envisaged. Of equal concern were the indications of declining tax compliance, as evidenced by the reduction in effective rates of taxation. In particular, production and consumption taxes had failed to keep up with inflation despite an increase in the statutory rate for the General Consumption Tax by 1.5 percentage points. The authorities pointed out, and the mission agreed, that other factors were also at play behind the revenue weakness. They noted that the fall in real disposable incomes of public sector employees, whose wages had been frozen under the existing memorandum of understanding (MOU) between the government and the public sector unions, had likely translated into an overall decline in consumption and, therefore consumption-related taxes. Furthermore, with the increase in tax rates, a switch in consumption to nontaxed items had likely occurred. In this regard, the mission noted that the hike in rates may indeed have had a perverse effect on yields by increasing incentives for avoidance and evasion, although any decline in compliance would normally have been expected to be slower.

16. **While recognizing that the original fiscal targets no longer appeared feasible, the mission urged the authorities to be more ambitious**. The mission commended the authorities for the remarkable expenditure restraint during the first two-thirds of the fiscal year but expressed concerns regarding the weaker policy stance going forward. Taking the strong seasonal pattern into account, the mission viewed a deficit of about 1½ percent of

GDP for FY 2005/06, declining to ½ percent of GDP during FY 2006/07, as reflecting a more appropriate set of targets. It further advised that if the economy picked up more than was currently envisaged, a mid-year budget revision be undertaken in FY 2006/07 to target a zero deficit already that year. This, in the mission's view, struck an adequate balance between accommodating unanticipated shocks, on the one hand, and getting back on track to balanced budgets as soon as possible, on the other.

17. **There was consensus that the fiscal outturn for FY 2005/06 remained uncertain**. While noting the already compressed nonwage expenditures and the limited additional spending planned for this year, the mission suggested that a comprehensive review of the entire expenditure envelope be undertaken to identify possible savings. As regards revenues, the authorities explained that the arrears-collection program underpinning some of their projections had begun (albeit with a substantial delay) but its efficacy remained to be demonstrated. Going forward, revenues also depended crucially on the strength of the tourist season and the economic recovery. The mission welcomed the start of the arrears clearance program as well as of specific audits to improve compliance with current tax obligations and recommended also reviewing assessment and return filing procedures. It suggested that forceful implementation of all of these programs, coupled with greater use (in the context of a highly visible campaign targeting the largest taxpayers) of enforcement powers, could substantially improve revenue collection.

18. **Given the expected size of the shortfall relative to the FY 2005/06 targets, the mission noted, however, the likely need for additional revenue measures in the context of the FY 2006/07 budget**. The mission emphasized that the measures hinged critically on next year's wage bill, given the impending expiration of the current MOU with public sector unions and the uncertainty regarding the next agreement. Government plans in other areas (both for FY 2006/07 and the medium-term) also remained to be fully fleshed out. Given the limited room on expenditures, the mission suggested a significant effort to expand the tax net to include more of the large informal sector through: (i) presumptive forms of taxation; (ii) the introduction of a capital gains tax; and, (iii) an expansion of the special consumption tax on motor vehicles and adjustments to other specific rates that have been eroded by inflation. It also recommended the rationalization of the external tariff regime to both simplify the structure and raise revenues. More generally, the mission suggested that the government should continue with tax reforms, to be implemented in a comprehensive fashion and aimed at removing exemptions and preferences, unifying rates, leveling the playing field, and increasing transparency.

19. **The mission cautioned that the external funding available from the PetroCaribe agreement should not loosen the fiscal effort**. The authorities indicated that they were considering using funds freed up by the agreement (under which Venezuela was offering concessional loans for petroleum purchases) for spending by public enterprises. The mission explained that at a general government level, new spending would represent a loosening of the fiscal effort, leading to higher public debt (Table 3). It recommended that the concessional financing be used instead to offset other, more expensive borrowing and that all relevant related activities be reflected in the government accounts.

20. **Accelerating structural reforms will bolster the authorities' medium-term fiscal strategy**. Discussions focused, in particular, on increasing the productivity of the public sector and reforming public enterprises. On the former, the mission noted that the across-the-board wage and employment freeze under the existing MOU had, in addition to reducing real incomes, also limited the room for the government to attract and retain qualified personnel. Identifying and shedding excess employment could create room for savings that could be used, at least in part, to rationalize the wage structure and better reward more productive employees. The authorities concurred that public sector employment was an area in need of a plan for the way forward. As regards public enterprises, the mission noted that a significant increase in public debt in recent years had been due to the government taking on obligations of commercial enterprises. Going forward, it will be important to continue to restructure and reform such enterprises, including through closures as necessary so that they do not add to the debt burden.

B. Monetary and Exchange Rate Policies

21. **The recent shocks and changes in the global environment have been particularly challenging for the conduct of monetary policy, given the fiscal dominance and growth concerns in Jamaica**. The authorities viewed the FY 2005/06 inflation target as feasible but for the shocks. They explained that policy had primarily been geared at containing monetary impulses to inflation. Cognizant of the fiscal and growth implications, the BOJ had, however, also endeavored to engender a stable reduction in interest rates, to the extent that the pace of such changes remained consistent with market expectations and could be sustained. The key question was, therefore, the extent to which the interest rate hikes in the United States and the fiscal and output developments in Jamaica impinged on policies going forward.

22. **The mission indicated a preference for preemptively and gradually increasing interest rates to confront pressures in the capital account**. It argued that in the absence of a sufficiently proactive stance, large capital outflows could eventually require an abrupt, large and sustained increase in interest rates.[3] In the mission's view, a gradual pre-emptive tightening would likely need to be of less magnitude cumulatively, easier to unwind, and thus more supportive of growth over the longer-run than reactive rate hikes. Finally, gradualism would enable domestic financial entities, significantly exposed to liquidity and interest rate risks, to make the necessary portfolio adjustments to reduce the negative impact of liquidity crunches and erosion of the limited capital base.

23. **While the authorities supported the principle of proactive monetary policy, they believed that the recent portfolio shifts were temporary and, therefore, a case for tightening was yet to be made**. The BOJ was of the view that accelerated portfolio shifts in the fourth quarter of 2005 mainly reflected concerns about inflation and consequently, real interest rates. This had occurred in a context of seasonally lower foreign exchange earnings, exacerbated by the impact of hurricanes in the region. Both of these concerns were, however,

[3] In March 2003, six-month treasury bill rates had to be increased by 15 percentage points, to 33 percent and they remained above the January 2003 level for the rest of the year.

likely to dissipate over the short-run. Indeed, there had already been sharp declines in monthly inflation and early data indicated an even stronger-than-anticipated tourist season.

24. **The authorities remain ready, however, to adjust rates if the conditions so warrant**. They acknowledged that the narrowing interest differential vis-à-vis the United States posed a risk. This risk could, however, be managed in their view, by a judicious mix of foreign exchange flexibility and market interventions. They noted that near-term stability was more contingent on fiscal policy, the debt dynamics and the growth prospects. They emphasized, however, that the BOJ had always maintained its policy flexibility and would adjust rates if and when necessary.

25. **The mission reinforced the view that fiscal policy was the driving force behind macroeconomic developments, including long-term inflation, in Jamaica**. Inflation, averaging 9½ percent annually since 1997 was high by international standards. Cross-country analysis suggested that expectations regarding fiscal policy may be a factor in explaining the persistence of high inflation (Box 1). The empirical link between inflation and debt suggested, in particular, that: (i) monetary tightening is likely to have only a limited impact on long-term inflation in Jamaica if not accompanied by debt reduction; and (ii) sustained sterilized purchases of foreign exchange by the central bank may be ineffective in containing inflation because the attendant debt accumulation would eventually weaken, or even offset, the sterilization impact.[4] The authorities, on their part, considered the base money management framework to have been successful in reducing inflation since 1996 and ascribed recent developments largely to exogenous factors. Notwithstanding the high costs of sterilization, they also emphasized the benefits, in terms of higher credit ratings and better borrowing terms, of maintaining sufficient external reserves, which currently stood at about US$2 billion or over four months of imports.

26. **Over the longer term, exchange rate flexibility will continue to be required**. The mission recommended that any pressures for capital outflows be contained mainly through interest rate policy, particularly in view of the sensitivity of the debt dynamics to sharp swings in the exchange rate. At the same time, it was also important for longer-term movements of the exchange rate to reflect fundamental developments in the real sector. The mission noted that the external competitiveness of the economy, as measured by the real effective exchange rate, has eroded recently due to high inflation relative to trading partners (Box 2). In this regard, while the current level of the exchange rate does not appear to be out of line with its historical levels, longer-term movements in the nominal rate should accommodate inflation differentials vis-à-vis trading partners.

---

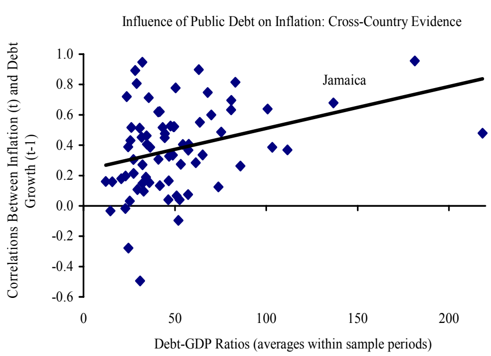
[4] The sterilization is undertaken with short-term central bank bills, the outstanding stock of which currently stands at around 25 percent of GDP and has an average (and recently declining) maturity of four months.

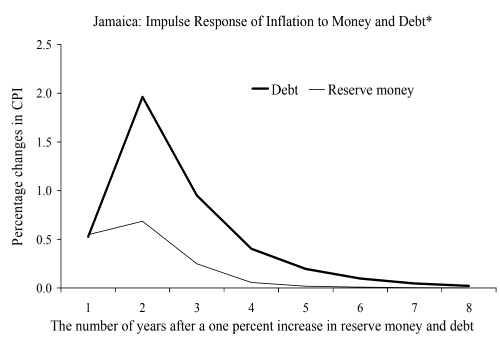
Box 1. Influence of Public Debt on Inflation

Inflation is affected not only by current and past money supply but also expectations about future fiscal policy, which affects future income or perceptions of current wealth. One such channel is the public's expectation of future monetization of public debt. Changes in such expectations affect current money demand and hence the current price level.[1] Another channel is the wealth effect of holding government debt—aggregate demand would increase and thereby affect the price level if the public considers its holdings of government debt as real wealth.[2]

An empirical analysis of 71 country experiences for up to 43 years conducted by staff (see accompanying Selected Issues paper) indicate that:

- Increases in public debt are strongly and significantly associated with higher inflation in developing countries, after controlling for changes in money supply, exchange rates, and output as well as output gap. This debt-inflation relationship is weak in inflexible exchange rate regimes and does not hold in major advanced economies.
- Public debt growth is more inflationary in high debt countries than in low debt countries. On average, a 10 percentage point higher debt-to-GDP ratio is associated with a 1 percentage point higher elasticity of inflation to debt growth.





*Based on a one-year lag VAR, covering annual data for 1980-2004.

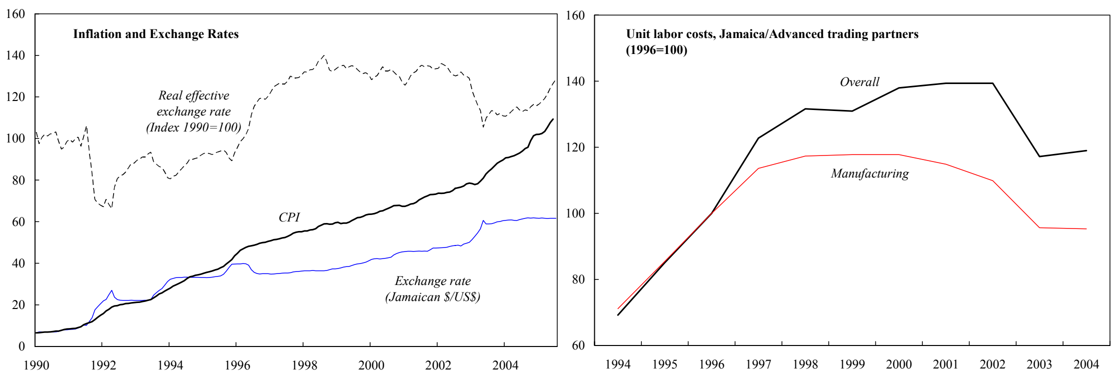
1/ Sargent, T. J., and N. Wallace (1981), "Some Unpleasant Monetary Arithmetic," *Quarterly Review*, Fall, Federal Reserve Bank of Minneapolis.

2/ Often called the fiscal theory of the price level.

Box 2. Jamaica's Competitiveness over Time

Movements in real effective exchange rate (REER) measures have been driven by the persistent gap between Jamaica's inflation and that of its trading partners, which in turn is partly influenced by the historically high exchange rate pass-through to inflation. Competitiveness, as measured by the CPI-based REER (left panel), received a boost in 2002/03, when the nominal exchange rate depreciated strongly. Relative unit labor costs mirrored the developments in relative inflation, with increases in labor costs in Jamaica outstripping those of its advanced trading partners through the late 1990s but moderating in 2003.

Based on these and other indicators (Figure 4), the picture on the current level of the external competitiveness appears to be largely mixed although the lack of timely data makes the assessment tentative. The CPI-based REER strengthened with the recent upsurge in inflation in late 2005, rising significantly above its long-term average (although still remaining somewhat below its peak in mid-1998). Unit labor cost data are not available for recent months but are likely to have moved along with inflation.

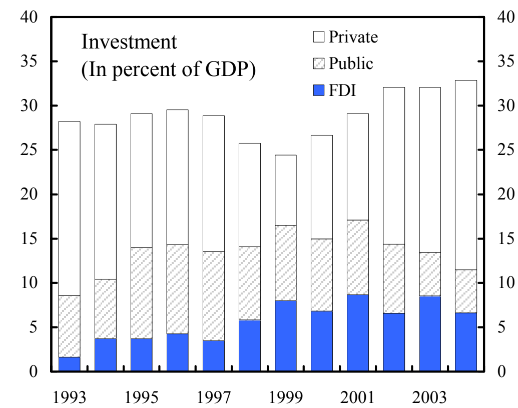


C. Enhancing Growth and Further Reducing Vulnerabilities

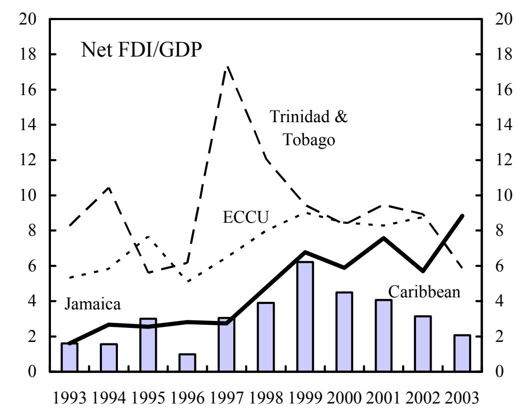
27. **The persistence of low growth in Jamaica has been disappointing and somewhat puzzling**. The economy was extensively liberalized in the early 1990s. It has an educated English-speaking labor force that is situated close to the United States. It also ranks relatively high on several measures of the investment climate. Finally, it remains relatively successful in attracting foreign direct investment and has high overall investment rates (see Figure 4), suggesting that the crowding-out of private investment by debt was not key to explaining the Jamaican experience.

Figure 4. Jamaica: Business Environment

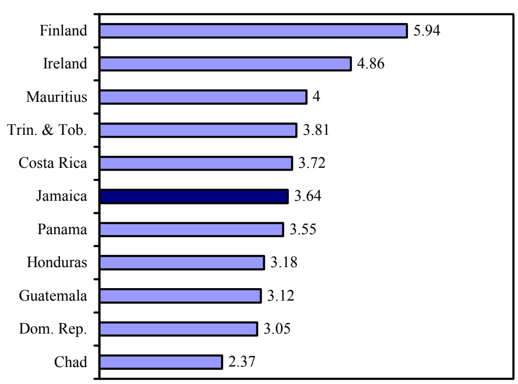
Overall, investment has been robust even as public investment has been declining...



And Jamaica has bucked the regional trend of stagnating FDI as a proportion of GDP...

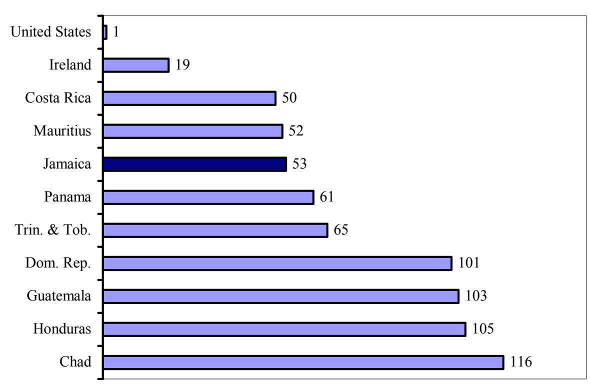


Jamaica is about average regionally on growth and competitiveness indicators...



Source: WEF Growth Competitiveness Index, 2005
(score out of possible 7)

But does better on business competitiveness indicators...



Source: WEF Business Competitiveness Index, 2005
(ranking out of 116 countries)

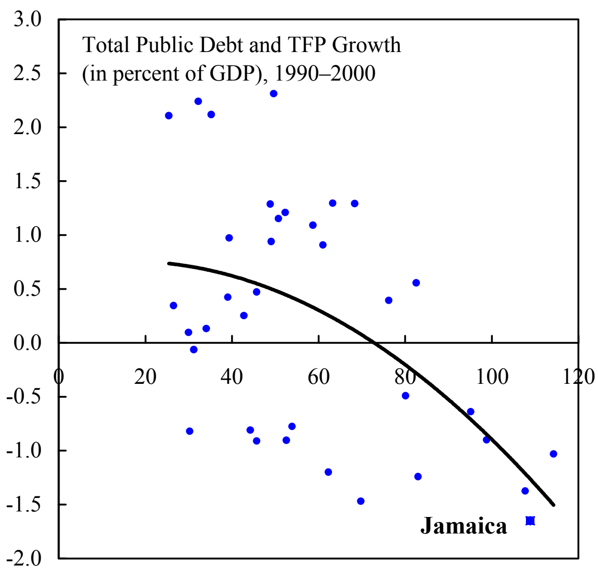
In specific areas, it is easier in Jamaica to start or close businesses, but harder to register property, get credit, or pay taxes.

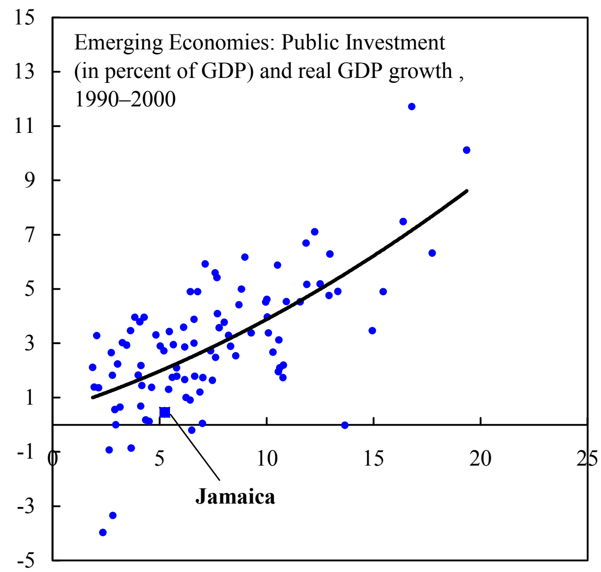
World Bank's Doing Business Rankings, 2005

Ease of ...	Jamaica	LAC	Middle-income LAC	OECD
Doing Business	*43*	*87*	*93*	*21*
Starting a Business	10	91	100	35
Dealing with Licenses	82	71	78	30
Hiring and Firing	39	90	99	68
Registering Property	95	73	73	44
Getting Credit	92	66	71	29
Protecting Investors	59	87	81	51
Paying Taxes	141	114	115	48
Trading Across Borders	37	78	86	22
Enforcing Contracts	40	98	98	20
Closing a Business	24	80	81	17

Source: World Bank, Doing Business Databases; and Fund staff estimates.

28. **The staff surmised that the high debt is likely to have contributed to the low growth through its impact on the productivity and efficiency, rather than the magnitude, of investment**. Cross-country data show a negative relationship between total factor productivity and total public debt.[5] Staff suggested that by skewing private investments toward safer but lower-return and shorter-term activities and industries, it was possible that the uncertainties created by high debt were (despite the high rates of overall investment) contributing to lower productivity and, therefore, low growth. Also, given the complementarity between public and private investment, countries with very low levels of public investment, as in Jamaica, appeared to grow more slowly, even if private investment remained high.





Source: IMF, *World Economic Outlook*.

29. **The authorities noted that growth was likely higher due to the large and informal economy but that further analysis was needed**. Notwithstanding the large informal sector, the authorities' main concerns were how to accelerate and sustain growth at levels that would generate employment and an appreciable rise in per capita income in an environment of eroding trade preferences and frequent natural disasters.[6] This required raising labor productivity and reducing vulnerability to weather-related shocks.

30. **Staff agreed that growth should continue to be a key focus of future consultations and pointed to a number of growth-enhancing public policy priorities**. Structural reforms to increase productivity were especially important, given the negative impact on competitiveness of the recent real exchange rate appreciation. Staff encouraged actions along a number of fronts. First, the tax reform agenda remained key—exemptions

---

[5] See accompanying Selected Issues paper "Jamaica: The Difficult Quest for Growth."

[6] Sugar and bananas account for around 7 percent of exports. Various estimates put employment in these industries at around 50,000 workers.

tended to promote sectors already growing fast at the cost of reducing public resources that could be devoted elsewhere. The numerous taxes and complex reporting requirements also increased the costs of doing business and labor costs could be reduced to the extent that there was scope for shifting taxes towards capital income. Second, access to credit could be improved for smaller enterprises adversely affected by the absence of credit registries and weak collateral procedures. Third, reducing crime, whose direct costs amounted to 5 percent of GDP by some estimates, should remain a priority.

31. **Furthermore, there may be scope to increase the quality of education and re-orient it to the needs of Jamaica**. Jamaica has one of the highest emigration rates in the world, with more than 80 percent of the skilled labor force estimated to have left the country over the last 35 years.[7] The critical policy question is whether the returns (in terms of remittances and investment by the diaspora) adequately compensate for the public investment costs of educating migrants. Related is the question of whether public education should be reoriented more towards meeting the needs of the domestic economy. Staff noted the findings of the Public Expenditure Review carried out with World Bank assistance that education outcomes and returns were not commensurate with government spending and encouraged the authorities to explore policy options to ensure that government social investment benefited Jamaica first and foremost.

32. **The discussions on risk mitigation centered on the financial sector**. Jamaica's financial system is large and interconnected and is the main source of budgetary financing. The system's overall assets amounted to an estimated 185 percent of GDP at end-2004, deeper than in countries with comparable income levels. Institutions of an advanced financial system—banks and securities, insurance, pension, and asset management companies—are all present with sizeable balance sheets. These institutions are closely interconnected through a small number of mostly foreign-owned financial conglomerates. A distinguishing development over the past few years has been the growth of securities dealers, whose main line of business has been to repo long-duration government debt to the general public in return for short-term funds, thereby exposing themselves to significant interest rate and liquidity risks. Measured in terms of asset size, securities dealers now exceed commercial banks.

33. **Following on recent strides to bring financial sector supervision and regulation in line with international best practice, the authorities remain committed to further strengthening the financial sector**. In recent years, salient steps taken to strengthen the sector have included the establishment of an independent regulatory body (the Financial Services Commission) to oversee nonbanking financial entities and a high-level inter-agency coordination body (the Financial Regulatory Council). The authorities have also improved the reporting and regulatory framework, inter alia, by increasing capital requirements for banks and introducing capital and margin requirements for securities dealers. The FSAP has identified further areas for strengthening (Box 3). The mission emphasized the need to

---

[7] See WP/06/25 "Emigration and Brain Drain: Evidence from the Caribbean" by Prachi Mishra.

Box 3. Key FSAP Recommendations

Although the financial system currently appears well-capitalized and supervision has been considerably strengthened in recent years, financial institutions operate in a risky macroeconomic environment with regulatory gaps. Reducing the large public debt is essential to provide a broad underpinning for financial stability as the financial system (and securities dealers in particular) appears most exposed to interest rate and liquidity risks, magnified by conglomerate structures as a possible channel of contagion. While much progress has been made in strengthening the supervisory and regulatory framework, the FSAP recommended a number of measures to further buttress the financial system.

- Enhance crisis management capacity, including through more coordinated financial stability analysis and planning across regulatory agencies as well as testing crisis management systems in coordinated simulation exercises.
- Strengthen consolidated supervision, including of conglomerates.
- Enhance measures underway to strengthen prudential requirements for security dealers by raising margin requirements for repurchase operations (repos) in GOJ securities to at least 10 percent this year, and strictly enforcing compliance with regulations.
- Clarify the legal framework for repos and other collateralized debt and introduce a centralized securities depository for fixed-income securities.
- Undertake a careful analysis of the risk concentration of insurers and the adequacy of their reinsurance coverage against low probability but catastrophic natural events.
- Expedite the adoption of an appropriate legal framework for payment and settlement systems and introduce a real time gross settlement system.

remain vigilant in forestalling any vulnerabilities in the financial system by taking the necessary steps.

34. **The authorities were pleased by the FSAP's favorable assessment of the steps that they have taken so far and noted their intention to follow up on the recommendations**. They pointed out that deposit-taking institutions remained generally sound, as indicated by their liquidity and capital adequacy ratios. More importantly, stress tests had revealed that the banking system was robust to sizeable interest rate, exchange rate, liquidity and credit shocks. They were also executing plans to further strengthen the prudential regime for securities dealers. On conglomerates, the authorities stressed that they had made great strides toward implementing consolidated supervision and noted that remaining regulatory gaps on the banking side would be addressed in the planned Omnibus bill. The BOJ also felt that broader changes in the supervisory architecture might be needed

and looked to the FSAP for a more definitive prescription. Staff pointed out that the FSAP's focus had been mainly on helping make the existing supervisory and regulatory system more effective and address the most pressing vulnerabilities. The mission noted the need to strengthen reporting requirements and undertake stress tests for nonbank financial entities. There was also scope to improve the flow of information further between the various regulatory authorities and continue to educate the public about the relative risk-reward mix of different financial instruments.

35. **A prudent public debt management strategy can also help mitigate some of the risks of financial market volatility**. Jamaica's debt consists of a wide variety of instruments held by a diversified investor base. A staff study suggests that in an ideal world, and based purely on the nature of past shocks, it would be optimal to weight heavily the issuance of fixed interest rate domestic currency (short-term and long-term) and long-term U.S. dollar-denominated instruments (see attached Selected Issues paper). In actuality, the market's appetite for different kinds of risks, and the market's expectations of the impact of shocks are not independent of the mix and magnitude of Jamaica's debt issuances. Cognizant of all of these considerations, the authorities have increased the proportion of fixed rate debt for the domestic portfolio in recent years. Staff noted the appetite in international markets for local-currency denominated debt and encouraged the authorities to explore further ways to diversify the investor base as well as to issue amortizing (rather than bullet) external bonds.

V. Staff Appraisal

36. **Jamaica's ambitious medium-term program has been weathering a difficult period, starting with Hurricane Ivan in late 2004**. Shocks that were not factored into the plan have exacted a price. The economy has had to withstand a series of natural disasters, as well as very large hikes in petroleum prices and increases in global interest rates. The fact that budgetary targets have not been met and that inflation has been somewhat higher than envisaged needs to be viewed against this background. At the same time, these developments underscore the fact that Jamaica can ill afford any faltering of its revenue collection efforts, or delays in undertaking policy corrections in response to changes in the global environment. It is also important that the financial sector continues to be strengthened and risks mitigated. The room for policy maneuverability is limited.

37. **Jamaica's efforts to reduce debt of such high magnitudes through fiscal consolidation alone is unprecedented—eliminating budgetary deficits as soon as possible remains crucial to realizing the authorities' objectives**. The authorities are fully committed to honoring existing obligations while seeking to reduce debt steadily along an ambitious trajectory. This requires sustaining fiscal primary surpluses at levels, and for periods, that have not been replicated elsewhere. Avoiding recurring fiscal slippages is thus critical to the effort, especially given the past links between the electoral cycle and the fiscal stance. Staff is encouraged that under difficult circumstances, the authorities remain committed to limiting the size of the temporary fiscal deficits and eliminating such deficits over the medium term. The authorities could attempt to be even more ambitious. In particular, they are encouraged to target a balanced budget for FY 2006/07 if the economy improves more than is currently envisaged.

38. **Realizing the budgetary objective for FY 2006/07 and beyond will require both revenue measures and expenditure discipline**. The staff considers it appropriate to place current focus on administrative efforts to strengthen revenues, given that recent increases in tax rates have not been fully successful and compliance remains a concern. The authorities are encouraged to pursue tax delinquents in a visible and exemplary fashion. The approach of relying on administrative efforts runs the risk, however, of rendering the final fiscal outcome for FY 2005/06 somewhat uncertain. As regards FY 2006/07, the outlook depends, in significant part, on the extent to which current efforts at improving revenues are successful as well as, critically, on the outcome of negotiations for the wage bill. In all cases, further measures will, however, likely be required. In this respect, the authorities are encouraged to broaden the tax base rather than to increase rates on regressive taxes further. They should also limit the debt burden emanating from off-budget entities. This requires continuing to pursue public enterprise reforms and using new concessional debt to replace costlier financing instead of expanding the overall expenditure envelope.

39. **Monetary and exchange rate policies will require deft handling in the period ahead**. Notwithstanding the severe fiscal dominance, there is some room for the monetary stance to be more independent of short-term fiscal considerations. A proactive position to forestall pressures from emerging, or of exacerbating, should in the long run prove more supportive of fiscal and growth objectives than an accommodative and reactive monetary policy. In this regard, the staff welcomes the authorities' clarifications that they stand ready to increase interest rates, if and when the conditions so warrant. As regards exchange rate policy, the authorities will need to ensure that competitiveness is maintained over the long run in the context of a flexible regime and that benefits of any sterilized foreign exchange purchases are commensurate with the costs in terms of the increased debt burden.

40. **Ensuring robust economic growth is crucial to the authorities' macroeconomic strategy**. The medium-term debt-to-GDP ratio is more sensitive to historical variations in growth projections than it is to moderate changes in interest rates. And, as the past has shown, Jamaica is exposed to both adverse natural events and changes in financial market sentiments. Given the very limited room in the debt reduction strategy to accommodate these growth variations and risks, policies to foster growth and further reduce vulnerabilities will have to continue to receive high priority. The ongoing high levels of investment in the economy are encouraging and indicate high growth potential, but policies will need to remain strong for these investments to translate into greater productivity and efficiency. The authorities are advised to continue with tax reform, improve access to credit, reduce crime, and further strengthen institutional capacity to withstand adverse changes in global conditions and sentiments.

41. **The authorities are encouraged to continue to strengthen the resilience of the financial system and upgrade their statistical systems**. The FSAP has identified a number of areas to follow on the progress that has been made to-date. The authorities are advised, in particular, to further develop crisis management capacity, improve consolidated supervision, and enhance measures to strengthen prudential requirements for securities dealers. In this last regard, the staff also encourages the authorities to continue to clarify the legal framework for repos as well as the distinctions to the public of different types of institutions and the relative risk-reward mix of diverse financial instruments. As regards broader data dissemination and

standards, Jamaica's statistics are broadly adequate for surveillance. Consistent with the government's desire to maintain access to international capital markets, the staff encourages the authorities, nevertheless, to continue upgrading their statistical systems toward eventual subscription to the SDDS. The authorities could also usefully start regularly producing financial surveys including securities dealers.

42. **The next two to three years will be critical for the authorities to meet their opportunities to secure rising and sustainable living standards for Jamaica**. Given the interlinkages between high debt, low growth and high inflation, resolute implementation of ambitious fiscal policies should, barring unexpected developments, eventually lead to a virtuous cycle of improving living standards, low inflation and reduced debt. Repeated or sustained deviations from the narrowly feasible path risk, on the other hand, an unraveling of the strategy, especially given the large gross financing needs. Thus, the room for maneuverability remains limited all around. It is encouraging in this regard that the commitments to policies remain so strong.

43. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle**.

Table 1. Jamaica: Selected Economic Indicators 1/

	2003/04	2004/05	Proj. 2/ 2005/06	Rev. Proj. 2005/06	2006/07	2007/08	2008/09	2009/10
			(Annual percentage changes)					
GDP, prices, and employment								
Real GDP	1.9	0.4	3.7	2.4	2.8	3.1	3.1	3.3
Nominal GDP	18.9	12.1	16.1	16.1	13.9	12.4	12.2	11.6
Consumer price index (end of period)	16.8	13.2	9.5	13.0	10.3	9.3	8.0	8.0
Consumer price index (average)	12.9	12.7	12.5	15.5	10.7	9.4	8.8	8.0
Exchange rate (end of period, in J$/US$)	1.7	0.9	…	…	…	…	…	…
End-of-period REER (percent change, appreciation +)	-2.7	5.6	…	…	…	…	…	…
Unemployment rate (in percent)	11.8	12.2	…	…	…	…	…	…
			(In percent of GDP, unless otherwise indicated)					
Government operations								
Budgetary revenue	29.4	30.8	31.2	29.1	28.1	28.1	28.1	28.1
Budgetary expenditure	36.0	35.7	31.2	31.5	31.5	31.1	30.2	29.1
Primary expenditure	18.2	19.1	17.6	17.9	18.1	18.1	18.1	18.1
Interest payments	17.8	16.7	13.6	13.6	13.4	13.0	12.1	11.0
Gap	0.0	0.0	0.0	1.0	2.9	3.0	3.0	3.0
Budget balance	-6.6	-4.9	0.0	-1.5	-0.5	0.0	0.8	1.9
Of which: primary fiscal balance	11.2	11.7	13.6	12.1	12.9	13.0	13.0	13.0
Off-budget expenditure 3/	3.1	2.2	2.5	2.5	2.4	1.8	1.8	1.4
Overall fiscal balance	-9.7	-7.1	-2.5	-3.9	-2.9	-1.8	-1.0	0.5
Public debt 4/	143.7	137.9	126.1	130.3	122.5	115.5	107.8	99.0
External sector								
Current account balance	-6.8	-6.1	-8.9	-8.3	-13.0	-11.0	-9.0	-4.3
Of which: exports of goods, f.o.b.	17.7	17.2	17.2	16.6	16.3	15.4	15.7	15.0
Of which: imports of goods, f.o.b.	39.7	40.5	39.9	41.6	44.8	42.3	40.7	36.0
Net international reserves (in millions of US$)	1,569	1,902	2,000	2,000	2,000	2,050	2,100	2,150
			(Changes in percent of beginning of period broad money) 5/					
Money and credit								
Net foreign assets 5/	9.0	7.5	9.4	4.9	4.2	6.0	5.5	4.6
Net domestic assets	11.3	2.7	6.0	4.5	6.9	8.5	9.1	11.7
Of which: credit to the central government	9.7	0.5	7.1	6.4	7.7	5.8	4.8	1.8
Broad money	20.2	10.3	15.4	9.4	11.1	14.5	14.5	16.3
Velocity (ratio of GDP to broad money)	2.6	2.6	2.6	2.8	2.9	2.8	2.8	2.7
Memorandum items:								
Nominal GDP (in billions of Jamaican dollars)	497	556	643	646	736	827	928	1,035
Exchange rate (end of period, J$/US$)	60.8	61.5	...	…	…	…	…	…

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Based partly on assumptions provided by the authorities. Fiscal years run from April 1 to March 31.

2/ Original projections for FY 2005/06, as reported in IMF Country Report No. 05/219.

3/ Includes issuance of debt to the BOJ to cover its cash losses and related capitalized interest, and debt related to off-budget projects financed initially by the private sector.

4/ Excluding financing flows associated with the PetroCaribe agreement.

5/ Including valuation adjustments.

Table 2. Jamaica: Summary of Central Government Operations

	2003/04	2004/05	Budget 2005/06	Rev. Proj. 1/ 2005/06	2006/07	2007/08	2008/09	2009/10
	(In billions of Jamaican dollars)							
Budgetary revenue and grants	145.5	171.3	204.5	187.7	206.6	232.3	260.6	290.8
Tax	133.2	153.0	182.5	167.9	189.9	213.5	239.5	267.3
Nontax	11.7	14.4	17.8	18.0	14.7	16.6	18.6	20.7
Grants	0.6	4.0	4.2	1.7	2.0	2.2	2.5	2.8
Budgetary expenditure	178.3	198.8	204.5	203.5	231.4	257.5	280.5	301.5
Primary expenditure 2/	90.1	106.0	116.9	115.9	133.1	149.7	167.9	187.4
Wage and salaries	60.5	63.5	61.4	63.1	73.6	82.7	92.8	103.5
Other expenditure	24.6	32.1	38.2	41.9	47.1	52.9	59.4	66.3
Capital expenditure	5.0	10.4	17.3	10.9	12.5	14.1	15.8	17.6
Interest	88.2	92.8	87.6	87.6	98.3	107.8	112.6	114.1
Domestic	71.5	72.6	64.4	64.4	70.0	76.7	78.8	77.7
External	16.7	20.1	23.2	23.2	28.3	31.0	33.8	36.5
Gap	0.0	0.0	0.0	6.4	21.1	24.8	27.5	30.7
Budget balance	**-32.8**	**-27.5**	**0.0**	**-9.4**	**-3.7**	**-0.4**	**7.6**	**19.9**
***Of which:* primary balance**	**55.4**	**65.3**	**87.6**	**78.2**	**94.5**	**107.4**	**120.2**	**134.1**
Off-budget expenditure	15.3	12.0	16.1	16.1	17.8	14.5	16.8	14.3
Issuance of debt to the BOJ 3/	11.5	8.2	16.1	16.1	16.1	14.5	16.8	14.3
Deferred financing 4/	3.8	3.9	0.0	0.0	1.6	0.0	0.0	0.0
Overall balance	-48.1	-39.5	-16.1	-25.5	-21.5	-14.9	-9.2	5.6
Financing	48.1	39.5	16.1	25.5	21.5	14.9	9.2	-5.6
External financing	11.5	7.8	3.2	3.2	2.0	1.5	1.5	1.6
Domestic financing	36.6	31.7	12.9	22.3	19.4	13.5	7.7	-7.2
Banking system	15.4	1.0	14.8	13.5	17.7	14.8	14.1	6.2
Others	21.2	30.8	-1.9	8.8	1.7	-1.3	-6.4	-13.4
	(In percent of GDP)							
Budgetary revenue and grants	29.4	30.8	31.8	29.1	28.1	28.1	28.1	28.1
Tax	26.9	27.5	28.4	26.0	25.8	25.8	25.8	25.8
Nontax	2.4	2.6	2.8	2.8	2.0	2.0	2.0	2.0
Grants	0.1	0.7	0.7	0.3	0.3	0.3	0.3	0.3
Budgetary expenditure	36.0	35.7	31.8	31.5	31.5	31.1	30.2	29.1
Primary expenditure 2/	18.2	19.1	18.2	17.9	18.1	18.1	18.1	18.1
Wage and salaries	12.2	11.4	9.5	9.8	10.0	10.0	10.0	10.0
Other expenditure	5.0	5.8	5.9	6.5	6.4	6.4	6.4	6.4
Capital expenditure	1.0	1.9	2.7	1.7	1.7	1.7	1.7	1.7
Interest	17.8	16.7	13.6	13.6	13.4	13.0	12.1	11.0
Domestic	14.4	13.1	10.0	10.0	9.5	9.3	8.5	7.5
External	3.4	3.6	3.6	3.6	3.8	3.8	3.6	3.5
Gap	0.0	0.0	0.0	1.0	2.9	3.0	3.0	3.0
Budget balance	**-6.6**	**-4.9**	**0.0**	**-1.5**	**-0.5**	**0.0**	**0.8**	**1.9**
***Of which:* primary balance**	**11.2**	**11.7**	**13.6**	**12.1**	**12.9**	**13.0**	**13.0**	**13.0**
Off-budget expenditure	3.1	2.2	2.5	2.5	2.4	1.8	1.8	1.4
Issuance of debt to the BOJ 3/	2.3	1.5	2.5	2.5	2.2	1.8	1.8	1.4
Deferred financing 4/	0.8	0.7	0.0	0.0	0.2	0.0	0.0	0.0
Overall balance	-9.7	-7.1	-2.5	-3.9	-2.9	-1.8	-1.0	0.5
Budgetary principal payment	20.0	24.0	21.8	21.8	20.4	18.4	24.1	23.0
Domestic	16.5	18.6	16.8	16.8	18.2	14.5	19.3	18.2
External	3.5	5.4	5.0	5.0	2.1	4.0	4.7	4.8
Memorandum items:								
Primary balance including grants	11.2	11.7	13.6	12.1	12.9	13.0	13.0	13.0
Public debt	143.7	137.9	126.1	130.3	122.5	115.5	107.8	99.0
Total debt ratio adjusted for Petro Caribe agreement	...	...	...	130.3	124.0	118.2	111.6	103.8
Of which: Petro Caribe 5/	...	...	...	0.0	1.4	2.7	3.8	4.8
Gross financing	29.7	31.1	24.3	25.7	23.3	20.2	25.1	22.3
GDP (in billions of J$)	495.5	556.3	642.9	646.0	735.6	827.1	927.9	1,035.3

Sources: Jamaican authorities; Fund staff estimates and projections.

1/ The starting point for the projections is the staff projection for FY 2005/06; includes partial year data for 2005/06.
2/ Revised projection for FY 2005/06 incorporates recent increases in allowances and pensions.
3/ Refers to debt issued in relation to Central Bank losses.
4/ Debt issued upon assuming public investment projects carried out by the private sector.
5/ Includes US$150 million annually associated with the Petro Caribe agreement.

Table 3. Jamaica: Summary of the Public Debt

	2003/04	2004/05	Rev. Proj. 2005/06	2006/07	2007/08	2008/09	2009/10
	(In billions of Jamaican dollars)						
Debt stock							
Public debt	712	767	842	901	955	1,000	1,025
Government debt	677	727	779	834	883	923	944
Domestic	418	449	482	510	532	548	549
Of which : US$ linked	97	85	91	97	103	109	114
External	259	278	297	323	350	375	395
Concessional	113	103	83	76	67	56	43
Commercial	146	174	214	248	283	319	352
Government guaranteed debt	35	41	63	68	72	77	81
External	27	32	54	58	62	65	68
Domestic	9	8	9	10	11	12	13
Domestic currency debt	329	373	400	423	440	451	448
Foreign currency debt	286	310	351	381	412	440	463
US$ linked debt	97	85	91	97	103	109	114
Change in the debt	94	55	75	59	54	45	25
	(In percent of GDP)						
Debt stock							
Public debt	143.7	137.9	130.3	122.5	115.5	107.8	99.0
Government debt	136.6	130.6	120.6	113.3	106.7	99.5	91.2
Domestic	84.3	80.7	74.6	69.3	64.4	59.1	53.0
Of which: US$ linked	19.5	15.2	14.0	13.2	12.5	11.7	11.0
External	52.3	49.9	46.0	44.0	42.3	40.4	38.2
Concessional	22.8	18.5	12.8	10.3	8.1	6.0	4.1
Commercial	29.5	31.4	33.2	33.7	34.3	34.3	34.0
Government guaranteed debt	7.2	7.3	9.7	9.2	8.8	8.3	7.8
Domestic currency debt	66.5	67.0	62.0	57.5	53.2	48.6	43.3
Foreign currency debt	57.7	55.7	54.3	51.8	49.8	47.4	44.7
US$ linked debt	19.5	15.2	14.0	13.2	12.5	11.7	11.0
Change in the debt/GDP ratio	-4.3	-5.8	-7.6	-7.8	-7.0	-7.7	-8.8
Memorandum items:							
Total debt (in billions of US$)	11.7	12.5	12.8	12.8	12.7	12.6	12.4
Of which: foreign currency debt	4.7	5.0	5.3	5.4	5.5	5.5	5.6
Public debt adjusted for PetroCaribe debt	...	...	...	124.0	118.2	111.6	103.8
Of which: cumulative PetroCaribe debt	...	...	...	1.4	2.7	3.8	4.8
GDP (in billions of J$)	495	556	646	736	827	928	1,035

Sources: Jamaican authorities; and Fund staff estimates and projections.

Table 4. Jamaica: Summary Accounts of the Bank of Jamaica 1/

	2002/03	2003/04	2004/05	Proj. 2/ 2005/06	Rev. Proj. 2005/06
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net international reserves	75	96	118	131	132
Net domestic assets	-43	-59	-76	-83	-86
Net claims on public sector 3/	64	76	95	111	111
Of which: central government	57	68	78	94	94
Credit to commercial banks	-12	-14	-13	-9	-10
Net credit to other financial institutions	-1	-1	-1	-1	-1
Open market operations	-86	-108	-144	-163	-164
Other items net 4/	-7	-12	-14	-22	-22
Base money	32	36	42	48	46
Currency in circulation	17	21	24	27	26
Liabilities to commercial banks	15	16	18	21	20
Fiscal year flows 1/					
Net international reserves	-19.7	20.5	22.1	13.6	14.0
Net domestic assets	22.0	-16.8	-16.7	-7.2	-10.1
Net claims on public sector 3/	27.2	11.9	19.3	16.2	16.3
Of which: central government	15.9	11.5	9.3	16.1	16.1
Net credit to commercial banks	-8.1	-1.2	1.1	3.9	2.7
Net credit to other financial institutions	0.1	0.1	-0.1	-0.1	0.0
Open market operations	13.0	-22.1	-35.6	-20.0	-20.5
Other items net 4/	-10.2	-5.5	-1.4	-8.0	-8.6
Base money	2.3	3.7	5.5	6.4	3.9
Currency in circulation	-0.2	3.3	2.9	3.6	2.2
Liabilities to commercial banks	2.4	0.4	2.5	2.8	1.7
	(Changes in percent of beginning-of-period base)				
Net international reserves	-65.3	63.1	61.1	32.6	33.7
Net domestic assets	72.8	-51.8	-46.0	-17.2	-24.3
Net claims on public sector 3/	90.1	36.7	53.4	38.9	39.2
Net credit to commercial banks	-26.8	-3.7	3.0	9.3	6.6
Net credit to other financial institutions	0.2	0.2	-0.3	-0.1	-0.1
Open market operations	43.0	-67.9	-98.3	-46.1	-49.2
Other items net 4/	-33.7	-17.0	-3.8	-19.1	-20.8
Base money	7.5	11.3	15.1	15.4	9.4
Currency in circulation	-0.5	10.2	8.1	9.3	5.3
Liabilities to commercial banks	8.1	1.2	7.0	6.1	4.1
Memorandum items:					
Change in net claims on the central government (percent of GDP)	3.8	2.3	1.7	2.5	2.5
Net international reserves (in millions of US$)	1,340	1,569	1,902	2,000	2,000

Sources: Bank of Jamaica; and Fund staff estimates.

1/ Fiscal year runs from April 1 to March 31.

2/ Original projections for FY 2005/06, as reported in IMF Country Report No. 05/219.

3/ Includes Bank of Jamaica's losses.

4/ Includes medium-and long-term liabilities, valuation adjustments, and allocation of SDRs.

Table 5. Jamaica: Summary Monetary Survey 1/

	2002/03	2003/04	2004/05	Proj. 2/ 2005/06	Rev. Proj. 2005/06
	(In billions of Jamaican dollars)				
End-of-period stocks 1/					
Net foreign assets	88	102	116	136	127
Net domestic assets	71	89	94	106	103
Net claims on public sector 3/	151	165	179	193	201
Of which: central government	132	147	148	163	162
Open market operations	-69	-83	-110	-109	-122
Credit to private sector	55	80	93	109	106
Other 4/	-66	-73	-68	-86	-82
Liabilities to private sector (M3)	159	191	210	243	230
Money supply (M2)	107	125	139	164	152
Foreign currency deposits	51	66	71	79	78
Fiscal year flows 1/					
Net foreign assets	-12.0	14.2	14.4	19.9	10.3
Net domestic assets	23.1	17.9	5.2	12.6	9.5
Net claims on public sector 3/	31.6	13.8	13.8	14.9	22.8
Of which: central government	12.1	15.4	1.0	14.8	13.5
Open market operations	0.5	-13.7	-26.9	0.8	-11.8
Credit to private sector	14.9	25.2	13.0	15.7	12.7
Other 4/	-24.0	-7.3	5.3	-18.8	-14.2
Liabilities to private sector (M3)	11.0	32.1	19.6	29.4	19.8
Money supply (M2)	-0.5	17.4	14.5	19.4	13.1
Foreign currency deposits	11.6	14.6	5.1	10.1	6.7
	(Change in percent of beginning-of-period M3)				
Net foreign assets	-8.1	9.0	7.5	9.4	4.9
Net domestic assets	15.6	11.3	2.7	6.0	4.5
Net claims on public sector 3/	21.4	8.7	7.2	7.1	10.8
Of which: central government	8.2	9.7	0.5	7.1	6.4
Open market operations	0.4	-8.6	-14.1	0.4	-5.6
Credit to private sector	10.1	15.9	6.8	7.5	6.0
Other 4/	-16.2	-4.6	2.8	-8.9	-6.7
Liabilities to private sector (M3)	7.5	20.2	10.3	15.4	9.4
Memorandum item:					
M3 velocity	2.6	2.6	2.6	2.6	2.8

Sources: Bank of Jamaica; and Fund staff estimates and projections.

1/ Fiscal year runs from April 1 to March 31.

2/ Original projections for FY 2005/06, as reported in IMF Country Report No. 05/219.

3/ Includes Bank of Jamaica operating balance and net unclassified assets.

4/ Includes net credit to nonbank financial institutions, capital accounts, valuation adjustment, securities sold under repurchase agreements and net unclassified assets.

Table 6. Jamaica: Summary Balance of Payments
(In millions of U.S. dollars)

			Proj. 1/	Rev. Proj.				
	2003/04	2004/05	2005/06	2005/06	2006/07	2007/08	2008/09	2009/10
Current account	-562	-555	-901	-852	-1,405	-1,254	-1,085	-551
Trade balance	-1,832	-2,112	-2,293	-2,553	-3,075	-3,058	-3,013	-2,692
Exports (f.o.b.)	1,467	1,556	1,739	1,700	1,756	1,745	1,884	1,918
Imports (f.o.b.)	3,299	3,668	4,302	4,254	4,831	4,803	4,897	4,611
Fuel	838	966	1,239	1,355	1,487	1,546	1,608	1,642
Exceptional imports (including FDI-related)	146	316	370	334	733	640	660	206
Other	2,315	2,387	2,423	2,565	2,612	2,617	2,629	2,763
Services (net)	597	628	657	737	806	989	1,154	1,346
Transportation	-128	-161	-205	-195	-250	-208	-190	-110
Travel	1,145	1,214	1,315	1,385	1,540	1,716	1,898	2,034
Of which : tourism receipts	1,401	1,492	1,612	1,645	1,813	2,002	2,197	2,348
Other services	-420	-425	-453	-453	-484	-519	-554	-578
Income (net)	-566	-578	-720	-647	-779	-855	-928	-918
Of which : investment income (net)	-638	-665	-824	-740	-877	-960	-1,040	-1,037
Current transfers (net)	1,239	1,507	1,455	1,612	1,642	1,670	1,702	1,713
Government (net)	106	172	114	126	104	79	80	83
Private (net)	1,133	1,336	1,340	1,486	1,539	1,591	1,623	1,630
Capital and financial account	791	888	1,000	950	1,405	1,304	1,135	601
Capital account (net)	0	-1	3	-1	2	2	2	2
Financial account (net)	790	889	997	951	1,404	1,302	1,133	599
Direct investment (net)	592	542	708	601	939	836	780	446
Official capital flows (net)	142	177	50	250	30	20	20	0
Private flows (net)	57	169	239	100	434	446	333	153
Of which : unidentified flows	-158	-191	0	0	0	0	0	0
Overall balance/change in NFA	229	333	98	98	0	50	50	50
Memorandum items:								
Net international reserves	1,569	1,902	2,000	2,000	2,000	2,050	2,100	2,150
(in weeks of imports of GNFS)	17	18	18	17	15	16	16	17
Current account (in percent of GDP)	-6.8	-6.1	-8.9	-8.3	-13.0	-11.0	-9.0	-4.3
Exports of goods (in percent change)	11.7	6.1	9.8	9.3	3.3	-0.6	8.0	1.8
Imports of goods (in percent change)	-1.2	11.2	10.8	16.0	13.6	-0.6	2.0	-5.9
Tourism receipts (in percent change)	12.2	6.5	8.0	10.2	10.2	10.4	9.7	6.9
GDP (in millions of U.S. dollars)	8,320	9,057	10,116	10,219	10,793	11,359	12,021	12,792

Sources: Jamaican authorities; and Fund staff estimates.

1/ Original projections for FY 2005/06, as reported in IMF Country Report No. 05/219.

Table 7. Jamaica: Summary of Public Debt by Maturity 1/

	2002	2003	2004	2005
Domestic currency denominated debt 2/				
In percent of total debt	52.3	50.0	52.8	47.8
Shares by maturity				
One year or less	17.6	20.6	18.9	21.9
One to five years	46.5	50.6	54.1	46.9
Five to ten years	17.9	15.6	15.2	18.5
Over ten years	18.0	13.3	11.9	12.7
External and foreign currency linked debt				
In percent of total debt	47.7	50.0	47.2	52.2
Shares by maturity				
One year or less	4.8	6.5	6.0	6.3
One to five years	21.1	17.7	16.8	27.4
Five to ten years	27.5	27.5	32.8	30.3
Over ten years	46.6	48.4	44.5	36.0

Sources: Jamaican Authorities; and Fund staff estimates.

1/ As of December 31 of each year.
2/ Excludes government guaranteed domestic debt.

Table 8. Jamaica: Selected Vulnerability Indicators

	2001/02	2002/03	2003/04	2004/05	2005/06 1/
Key economic and market indicators					
Real GDP growth (in percent)	0.9	2.2	1.9	0.4	2.4
CPI inflation (period average, in percent)	8.0	6.5	12.9	12.7	15.5
Short-term (ST) interest rate (in percent)	14.3	33.4	16.0	13.5	13.0
EMBI secondary market spread (bps, end of period)	550	800	551	405	330
Exchange rate NC/US$ (end of period)	47.5	56.1	60.8	61.5	...
External sector					
Exchange rate regime		Managed float			
Current account balance (percent of GDP)	-9.6	-15.2	-6.8	-6.1	-8.3
Net FDI inflows (percent of GDP)	5.7	5.3	7.1	6.0	5.9
Exports (percentage change of US$ value, GNFS)	-8.4	1.7	11.0	6.6	8.4
Real effective exchange rate (1995/96=100; end of period)	135.5	116.2	113.0	119.3	124.7
Gross international reserves (GIR) in US$ billion	2.0	1.4	1.6	1.9	2.0
GIR in percent of ST debt at remaining maturity (RM)	273.9	472.0	327.0	989.7	681.3
GIR in percent of ST debt at RM and banks' FX deposits.	128	115	100	143	102
Net international reserves (NIR) in US$ billion	1.9	1.3	1.6	1.9	2.0
Total gross external debt (ED) in percent of GDP	50.7	54.8	54.5	55.7	51.8
Of which : ST external debt (original maturity, in percent of total ED)	0.0	0.0	0.0	0.0	0.0
ED of domestic private sector (in percent of total ED)	...	...	...	...	...
ED to foreign official sector (in percent of total ED)	25.3	24.0	21.6	17.7	...
Total gross external debt in percent of exports of GNFS	127.2	126.4	123.6	128.9	124.8
Gross external financing requirement (in US$ billion) 2/	1.0	1.9	0.8	1.0	1.0
Public sector (PS) 3/					
Overall balance (percent of GDP)	-6.1	-10.8	-9.7	-7.1	-3.9
Primary balance (percent of GDP)	7.8	7.3	11.2	11.7	12.1
Debt-stabilizing primary balance (percent of GDP) 4/	7.3	17.3	10.0	9.0	5.0
Gross PS financing requirement (in percent of GDP) 5/	30	31	30	31	26
Public sector gross debt (PSGD, in percent of GDP)	132	146	144	138	130
Of which : Exposed to rollover risk (in percent of total PSGD) 6/	18	15	17	17	15
Exposed to exchange rate risk (in percent of total PSGD) 7/	25	30	35	35	...
Exposed to interest rate risk (in percent of total PSGD) 8/	57	52	42	43	...
Public sector net debt (in percent of GDP)	126	141	138	133	123
Financial sector (FS) 9/					
Capital adequacy ratio (in percent)	19.7	15.4	14.0	17.5	18.7
NPLs in percent of total loans	6.1	3.8	3.1	2.7	2.5
Provisions in percent of NPLs	149.6	138.9	125.0	135.7	129.3
Return on average assets (in percent)	2.1	2.8	4.3	3.1	...
Return on equity (in percent)	21.5	26.6	39.0	26.9	...
FX deposits held by residents (in percent of total deposits)	26.4	28.5	33.9	34.4	34.8
FX loans to residents (in percent of total loans)	32.6	33.0	37.5	40.2	40.4
Net open forex position (in percent of capital) 10/	32.1	26.6	0.2	15.1	-5.5
Government debt held by FS (percent of total FS assets)	45.1	42.7	41.2	40.4	44.9
Credit to private sector (percent change)	18.5	34.9	47.2	18.6	...
Memorandum item:					
Nominal GDP in billions of U.S. dollars	8.2	7.6	8.3	9.1	10.3

Sources: Bank of Jamaica, Ministry of Finance, STATIN, and Fund staff estimates and projections.

1/ Staff estimates, projections, or latest available observations.
2/ Current account deficit plus amortization of external debt.
3/ Public sector covers central government only.
4/ Based on averages for the last five years for the relevant variables (i.e., growth, interest rates).
5/ Overall balance plus debt amortization.
6/ ST debt and maturing medium- and long-term debt, domestic and external, excluding external debt to official creditors.
7/ Debt in foreign currency or linked to the exchange rate, domestic and external, excluding external debt on concessional terms.
8/ ST debt and maturing medium-and long-term debt at variable interest rates, domestic and external.
9/ Financial sector includes commercial banks only. FY 2005/06 data refer to September 05 data.
10/ Sum of on-and off-balance sheet exposure.

Table 9. Jamaica: Public Sector Debt Sustainability Framework, FY 2000/01-FY 2010/11
(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Debt-stabilizing primary balance 9/
1	**Baseline: Public sector debt 1/**	**132.0**	**135.1**	**148.0**	**143.7**	**137.9**	**130.3**	**122.5**	**115.5**	**107.8**	**99.0**	**89.6**	**2.8**
	Government debt 1/	127.5	129.2	140.8	136.6	130.6	120.6	113.3	106.7	99.5	91.2	82.3	
	Of which : foreign-currency denominated	49.2	69.9	70.6	71.8	65.1	60.0	57.2	54.8	52.1	49.1	46.3	
	Government guaranteed debt 1/	4.4	5.9	7.2	7.2	7.3	9.7	9.2	8.8	8.3	7.8	7.3	
2	Change in public sector debt	-1.9	1.7	11.6	-4.2	-6.0	-10.0	-7.3	-6.6	-7.2	-8.3	-8.9	
3	Identified debt-creating flows (4+7+12)	-10.4	-6.2	10.9	-7.0	-7.1	-9.8	-7.5	-6.7	-7.4	-8.4	-8.7	
4	Primary deficit	-11.5	-7.4	-5.4	-8.1	-9.6	-9.6	-10.4	-11.2	-11.1	-11.6	-11.8	
5	Revenue and grants	29.1	27.0	28.1	29.4	30.8	29.1	28.1	28.1	28.1	28.1	28.1	
6	Primary (noninterest) expenditure	17.7	19.6	22.7	21.3	21.2	19.4	17.7	16.9	16.9	16.5	16.3	
7	Automatic debt dynamics 2/	6.5	1.2	16.3	1.1	2.5	-0.2	3.0	4.5	3.7	3.2	3.1	
8	Contribution from interest rate/growth differential 3/	4.7	1.2	3.3	-4.5	1.8	-4.8	-1.4	0.5	0.6	0.8	0.9	
9	Of which contribution from real interest rate	4.6	2.3	6.0	-2.1	2.3	-2.0	1.8	3.9	3.8	4.0	3.8	
10	Of which contribution from real GDP growth	0.1	-1.1	-2.7	-2.4	-0.5	-2.8	-3.2	-3.4	-3.2	-3.2	-2.9	
11	Contribution from exchange rate depreciation 4/	1.9	0.0	13.1	5.6	0.7	...	...	...	...	...	...	
12	Other identified debt-creating flows	-5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13	Privatization receipts (negative)	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14	Recognition of implicit or contingent liabilities	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) 5/	8.5	7.9	0.6	2.7	1.1	4.4	4.6	4.1	3.3	2.5	2.1	
	Public sector debt-to-revenue ratio 1/	453.1	500.2	527.3	489.4	447.7	448.5	436.3	411.2	383.7	352.4	319.1	
	Gross financing need 6/	23.2	30.1	31.0	29.7	31.1	25.7	23.3	20.2	25.1	22.4	19.0	
	in billions of U.S. dollars	1.8	2.4	2.4	2.5	2.8	2.6	2.5	2.3	3.0	2.9	2.6	
	Scenario with key variables at their historical averages 7/						**120.6**	**119.7**	**118.5**	**116.6**	**114.1**	**111.1**	**4.4**
	Scenario with no policy change (constant primary balance) in 2005-2010						**130.3**	**111.8**	**106.5**	**100.8**	**94.5**	**88.0**	**2.9**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	0.8	0.9	2.2	1.9	0.4	2.4	2.8	3.1	3.1	3.3	3.3	
	Average nominal interest rate on public debt (in percent) 8/	14.5	11.5	12.7	15.0	13.7	12.1	12.6	12.9	12.8	12.4	12.6	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.8	2.0	5.0	-1.4	1.8	-1.3	1.8	3.9	3.9	4.4	4.6	
	Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.4	-4.0	-15.4	-7.6	-0.9	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	10.7	9.5	7.6	16.4	11.9	13.4	10.8	9.0	8.8	8.0	8.0	
	Growth of real primary spending (deflated by GDP deflator, in percent)	-9.5	11.1	17.9	-4.2	0.1	-6.2	-6.7	-1.5	3.6	0.7	1.8	
	Primary deficit	-11.5	-7.4	-5.4	-8.1	-9.6	-9.6	-10.4	-11.2	-11.1	-11.6	-11.8	

Sources: Country authorities; Fund staff estimates and projections.

1/ Central government and government guaranteed debt on gross basis. From FY 2002/03, includes debt issued to the BoJ to cover its cash losses and related capitalized interest. The primary balance includes budgetary primary balance and off-budget expenditure.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

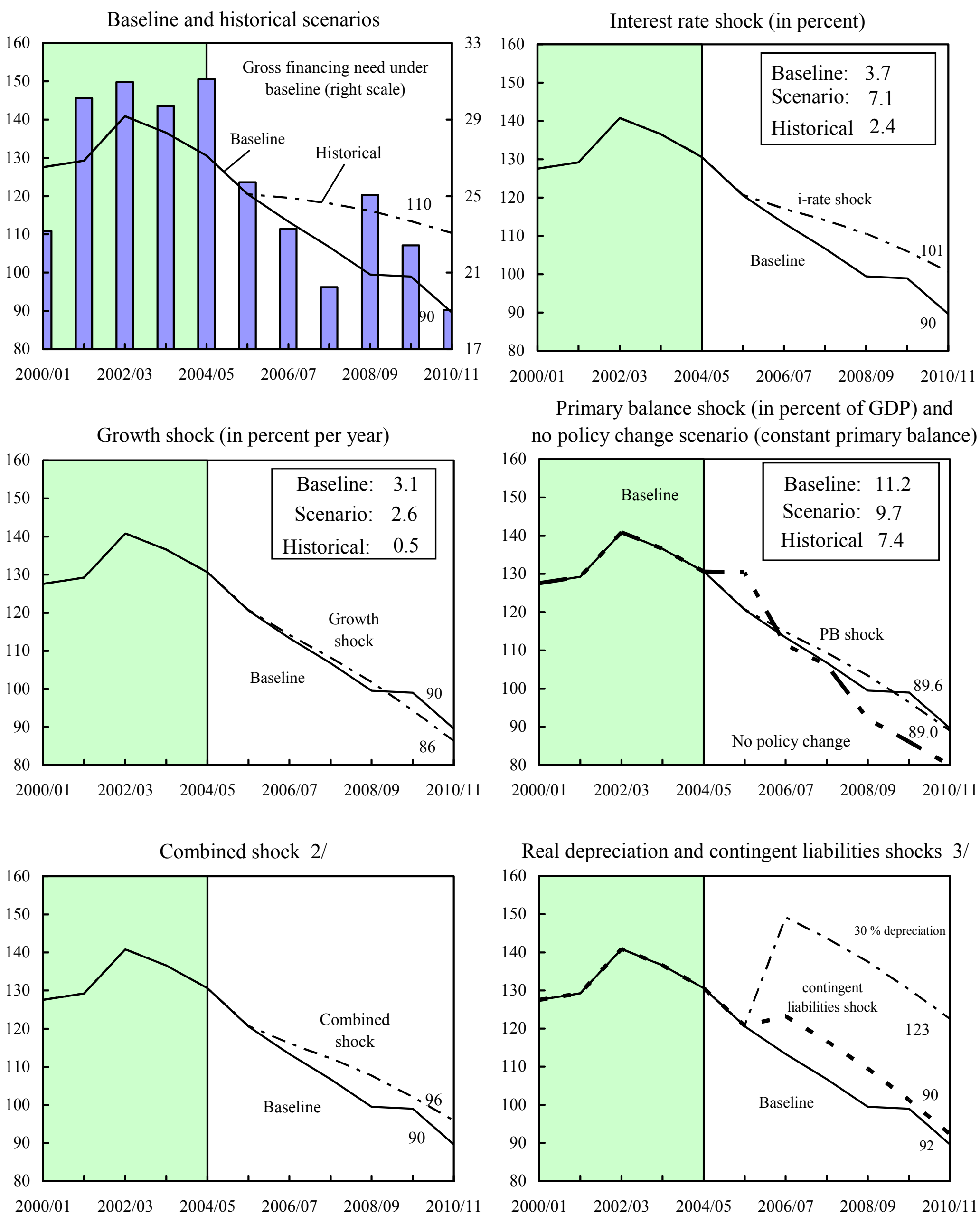
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 5. Jamaica Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas and the Baseline projection line represent actual Central Government Debt data (i.e. NFPS Debt excluding Government Guaranteed debt). Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented . Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 10. Jamaica: External Debt Sustainability Framework, FY 2000/01-2009/10
(In percent of GDP, unless otherwise indicated)

						Proj.					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	**46.0**	**50.7**	**54.8**	**54.4**	**55.7**	**51.8**	**49.3**	**47.0**	**44.6**	**41.9**	**-1.6**
Change in external debt	5.1	4.8	4.1	-0.4	1.3	-3.9	-2.5	-2.3	-2.4	-2.7	
Identified external debt-creating flows (4+8+9)	-2.2	2.2	13.4	-5.0	-4.3	1.3	2.9	2.2	1.2	-0.6	
Current account deficit, excluding interest payments	2.7	6.2	11.1	3.2	2.5	4.5	8.7	6.9	5.0	0.5	
Deficit in balance of goods and services	10.8	15.4	21.7	14.8	16.4	17.8	21.0	18.2	15.5	10.5	
Exports	45.0	39.9	43.4	44.1	43.2	41.5	41.9	41.9	42.9	42.2	
Imports	55.9	55.3	65.1	59.0	59.6	59.3	63.0	60.2	58.4	52.7	
Net nondebt creating capital inflows (negative)	-6.7	-5.6	-5.3	-7.1	-6.0	-5.9	-8.7	-7.4	-6.5	-3.5	
Automatic debt dynamics 1/	1.9	1.6	7.6	-1.1	-0.8	2.7	2.9	2.7	2.6	2.4	
Contribution from nominal interest rate	2.7	3.1	4.1	3.5	3.6	3.9	4.3	4.2	4.0	3.8	
Contribution from real GDP growth	-0.3	-0.4	-1.1	-1.0	-0.2	-1.2	-1.4	-1.5	-1.4	-1.4	
Contribution from price and exchange rate changes 2/	-0.4	-1.1	4.6	-3.6	-4.2	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	7.2	2.6	-9.3	4.5	5.5	-5.2	-5.4	-4.5	-3.6	-2.1	
External debt-to-exports ratio (in percent)	102.1	127.2	126.4	123.4	128.9	124.8	117.6	112.1	104.0	99.4	
Gross external financing need (in billions of U.S.dollars) 4/	**0.7**	**1.1**	**1.9**	**0.9**	**1.0**	**1.0**	**1.7**	**1.8**	**1.7**	**1.1**	
in percent of GDP	9.3	13.7	24.8	10.3	11.5	10.2	15.8	15.8	14.3	8.7	
Scenario with key variables at their historical averages 5/						**51.8**	**46.0**	**40.9**	**36.8**	**34.2**	**-4.5**
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	0.8	0.9	2.1	2.0	0.4	2.4	2.8	3.1	3.1	3.3	
GDP deflator in U.S. dollars (change in percent)	1.0	2.4	-8.4	7.0	8.5	10.2	2.7	2.0	2.7	3.0	
Nominal external interest rate (in percent)	6.6	6.9	7.6	7.0	7.3	7.8	8.8	8.9	9.0	9.1	
Growth of exports (U.S. dollar terms, in percent)	3.7	-8.4	1.7	11.0	6.6	8.4	6.7	5.3	8.2	4.7	
Growth of imports (U.S. dollar terms, in percent)	8.5	2.3	10.2	-1.2	10.0	12.2	12.2	0.6	2.7	-3.9	
Current account balance, excluding interest payments	-2.7	-6.2	-11.1	-3.2	-2.5	-4.5	-8.7	-6.9	-5.0	-0.5	
Net nondebt creating capital inflows	6.7	5.6	5.3	7.1	6.0	5.9	8.7	7.4	6.5	3.5	

Sources: Country authorities; Fund staff estimates and projections.

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP Deflator).

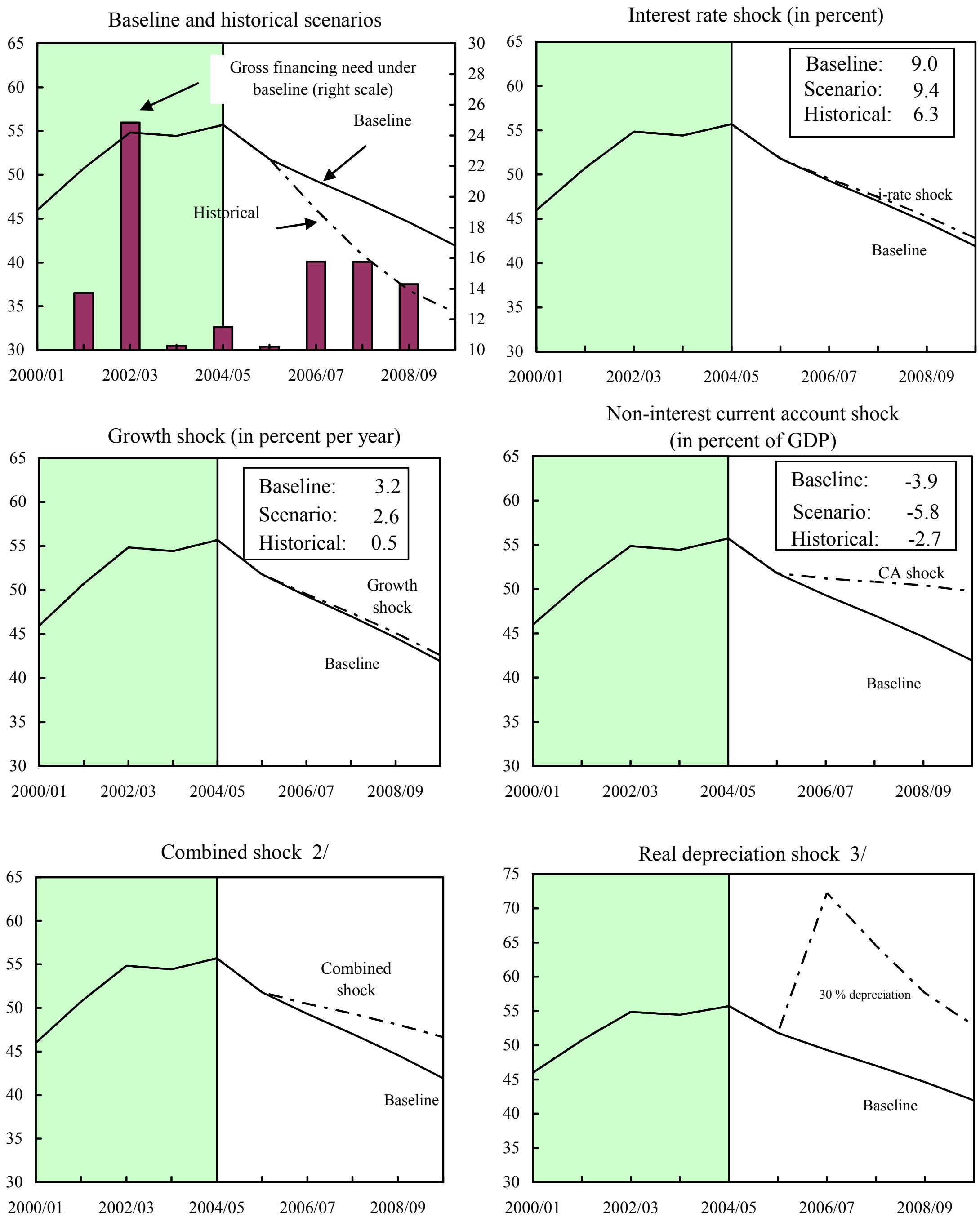
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Jamaica: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2006.

Jamaica—Fund Relations
(As of December 31, 2005)

I. Membership Status: Joined: February 21, 1963; Article VIII

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	273.50	100.00
Fund holdings of currency	273.55	100.02
Reserve position	0.00	0.00
Holdings exchange rate		

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	40.61	100.00
Holdings	0.00	0.01

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date -	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec. 11, 1992	Mar. 16, 1996	109.13	77.75
Stand-By	Jun. 28, 1991	Sep. 30, 1992	43.65	43.65
Stand-By	Mar. 23, 1990	May 31, 1991	82.00	82.00

VI. Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					
Charges/Interest	1.23	1.23	1.24	1.23	1.23
Total	1.23	1.23	1.24	1.23	1.23

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Exchange Rate Arrangements:

The external value of the Jamaican dollar has been determined in an interbank market operated by commercial banks beginning September 17, 1990. The Jamaican dollar has depreciated significantly since then, though not in a uniform trend. At January 31, it was trading at around J$65 to the U.S. dollar. At the conclusion of the 2004 Article IV consultation for Jamaica, it was found that a multiple currency practice arose from the implementation of the surrender requirement where authorized foreign exchange dealers and cambios are required to surrender at least 5 percent–but not more than 10 percent–of their purchases of U.S. dollars, Canadian dollars and pound sterling to the Bank of Jamaica (BOJ). This surrender requirement is effected based on the previous day's average selling rate for the U.S. dollar, the Canadian dollar and the pound sterling, respectively, against the Jamaican dollar (referred below as "surrender rates"). In 2004, the surrender rates had resulted in the cross rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and the pound sterling to differ periodically (for more than 5 days) by more than 1 percent from the midpoint spot exchange rates for those two currency pairs in their principal markets. While such differences were observed in 2004 leading to a finding that a multiple currency practice arose, the previously identified broken cross rate arising from the currency surrender requirement is no longer apparent since this time. Therefore, there is no evidence that a multiple currency practice arises from the surrender requirement.

IX. Last Article IV Consultation and Program Relations:

Jamaica is on the standard 12-month consultation cycle, and the last Article IV consultation was completed by the Executive Board on August 2, 2004 (IMF Country Report No. 04/263). Interim staff reports were prepared for information of the Executive Board in-between Article IV consultations (IMF Country Report Nos. 05/61 and 05/219). In addition, a Financial Sector Assessment Program has been completed and awaits review by the Executive Board.

X. Technical Assistance:

Department	**Dates**	**Purpose**
MAE	May 1995	Review of deposit insurance scheme
	October–December 1995	Banking supervision
	February–June 1996	Banking supervision
	September 1996	Banking crisis and restructuring
	October 1996	Banking supervision
	February 1997	Central bank accounting
	May 1997	Banking supervision
	August 1997	Banking supervision
	January 1998	Banking supervision
	April 1998	Public debt management
	May 1998	Financial sector restructuring
	April 2001	Banking supervision

	January 2002	Banking supervision
STA	September 1996	Multisector statistics assessment
	July 2002	Organization of Statistics Office

XI. Resident Representative:

The post of the resident representative was closed on August 1997.

Jamaica—Relations with the World Bank Group

(As of February 15, 2006)

The new Country Assistance Strategy (CAS) for Jamaica was discussed by the WB Board of Executive Directors on May 10, 2005. The document proposes financial assistance of up to US$150 million between 2006 and 2009, as well as technical and advisory services. The CAS will support the Government's own Medium–Term Socioeconomic Policy Framework for 2004–2009 with lending, analytical, and technical assistance to accelerate inclusive economic growth, improve human development and opportunity, and help prevent and reduce crime. It was prepared in collaboration with the government and was widely consulted and discussed with other donors, representatives of the private sector, CBOs, Chambers of Commerce, trade unions, and academic institutions. As part of the assistance program, the Bank will undertake analytical work including a Poverty Assessment, a Financial Sector Assessment Program (jointly with the International Monetary Fund), a Country Fiduciary Assessment (jointly with the Inter-American Development Bank), and a Diagnostic of the Investment Climate. The Bank Group assistance program will include support from the International Finance Corporation (IFC), focused on investment in infrastructure, the financial sector, services and other sectors, and the Multilateral Investment Guarantee Facility (MIGA), focused on development of the financial sector and key infrastructure.

A. Projects

The Jamaica **REFORM OF SECONDARY EDUCATION PROJECT II** was approved in March 2003 for US$39.8 million. In support of Jamaica's 15 program to reform secondary education, the Project will improve the quality, and equity of secondary education, and expand access to upper secondary education, as well as strengthen the capacity of the central ministry, and regional offices to manage, and monitor the reform. The components of the Second Reform of Secondary Education Project will: 1) finance grants to selected secondary schools, on the basis of annual work programs, and budgets for activities designed to improve student outcomes, as well as direct costs associated with preparing, and implementing school improvement plans. Technical assistance will support the preparation of a school improvement plan manual, and training materials, while training assistance in school development, and management will be provided; 2) finance centrally coordinated activities that complement the bottom up approach, and support all-age schools not eligible for school improvement grants (SIGs), to rally national literacy programs, and mathematics, by providing tools for teachers to diagnose the specific learning problems, enriching libraries and media centers, and supporting counseling for at-risk youths; 3) provide access to upper secondary school, by securing excess capacity in independent secondary schools, through construction of new schools, and extension of existing selected schools; and, 4) support the Ministry of Education, and regional offices in the implementation of the above components, as their role shifts from centralized, to one responsive to school-based demands for technical assistance, and continuous support on monitoring outcomes.

The Jamaica **HIV/AIDS Prevention and Control Project** was approved in August 2002 for US$15 million. The HIV/AIDS Prevention and Control Project for Jamaica is part of the

Second Phase Multi-Country HIV/AIDS Prevention and Control Adaptable Program Lending (APL) for the Caribbean Region, which provides loans and/or credits to governments in the Region to finance their HIV/AIDS programs. Jamaica has met the five eligibility criteria for country participation. This project aims to support selected activities of Jamaica's HIV/AIDS National Strategic Plan (NSP). Using a multi-sectoral approach, it assists the Government of Jamaica in curbing the spread of the HIV epidemic through 1) the expansion of preventive programs targeted to high-risk groups as well as the general population; 2) the strengthening of treatment, care, and support for persons living with HIV/AIDS (PLWHA); and 3) the strengthening of Jamaica's multisectoral capacity to respond to the epidemic

The Jamaica **Social Safety Net Project** was approved in February 2002 for US$40 million. The Social Safety Net Project is supporting the Government's efforts to transform the social safety net into a fiscally sound, and efficient system of social assistance for the poor, and vulnerable groups. The components will: 1) finance conditional grants for poor children (up to age 17), eligible under the program. Direct costs regarding schooling, and health care delivery will be financed by those grants, conditioned on regular health clinic visits for children up to the age of six not enrolled in school, and for children on school attendance up to the age of seventeen; 2) finance conditional grants to poor pregnant/lactating mothers, elderly poor over the age of sixty-five, and poor disabled, and destitute adults under the age of sixty-five, eligible under the program. Benefits will be conditional on regular health clinic visits for adult beneficiaries; and, 3) strengthen the institutional capacity of the Ministry of Labor and Social Security, and institutions involved in the operation, and streamlining of the social safety net in Jamaica. Support will be provided for enrollment mechanisms of temporary employees, hired for data processing, including as well the financing of the necessary technology information equipment, and software. Technical assistance, will support implementation of the scoring formula, based on data from the Survey of Living Conditions, namely at the early stages, when the scoring formula will require periodic review, and refinement. Also included are training, and promotion assistance, project management costs, and, monitoring, and evaluation systems.

The Jamaica **National Community Development Project** was approved in April 2003 for US$15 million. The National Community Development Project aims at providing basic services and creating temporary employment opportunities for the poorest groups in Jamaica. To this end, several subprojects have been identified as priority by these communities for funding by the Jamaica Social Investment Fund (JSIF). The project components include: 1) financing of demand-driven, and community-implemented socioeconomic infrastructure works, and activities, through subprojects that include construction, and rehabilitation of basic infrastructure, and social super-structure facilities. Community assessments will be implemented, to ensure appropriate skills (or ability to acquire skills), and resources availability to manage the proposed community-contracted works; 2) financing for technical assistance, training, and strengthening programs to JSIF, and the various entities to be involved in the project, particularly to support the Community Based Contracting (CBC) system. Financing will also be provided for additional consultants to support implementation of community contracting; and, 3) funding for goods required to facilitate subproject supervision, monitoring, and community training.

The Jamaica **IDF Grant for Strengthening Debt Management Capacity** was approved in October 2003 for US$274,000. The purpose of the grant is to strengthen the capacity of the Ministry of Finance and Planning to develop its debt management strategy.

B. Economic and Sector Work

During 2003 and 2004, the Bank prepared a Country Economic Memorandum focused on issues related to accelerating inclusive economic growth and, during 2004 and 2005, a Public Expenditure Review examining public expenditure allocation priorities and public sector reform issues in Jamaica's tight fiscal environment. In addition, a study on growth and competitiveness issues in the Caribbean recently completed by the Bank provides the Government with insights and policy recommendations for improving the competitiveness of the economy. The dissemination of these reports represented a key instrument for policy discussion with the Government on the country's development priorities and the Bank's assistance strategy.

A Poverty Assessment currently under preparation will provide an updated assessment of poverty levels and will focus on poverty and the labor market, and the link between crime and violence and poverty. Work on a Country Fiduciary Assessment (CFA), in collaboration with the Inter-American Development Bank, is underway to help strengthen public financial management and procurement. It will also help to provide a sound basis for the harmonization and alignment with the country's procurement and financial management systems. To help create a positive enabling environment for private sector driven growth, the Bank is also undertaking a Diagnostic of Investment Climate which will provide policy recommendations complementary to the recently completed study on growth and competitiveness issues in the Caribbean.

The Bank will continue the informal monitoring of macroeconomic developments given the vulnerability of the economy. This will be done within the context of the results based monitoring framework agreed between the Government and the donors. In addition, the Bank will undertake just-in-time policy notes to follow-up on specific findings and recommendations of the studies undertaken during the CAS period and other issues jointly identified with the authorities.

In addition to the country specific analytical work, Jamaica will benefit from ongoing and planned regional studies. A Caribbean regional study on Crime, Violence and Social Exclusion would focus on the impact of crime on tourism, investment, poverty, and social cohesion. This would be a multi-sectoral endeavor aimed at developing recommendations that would draw on experience from successful interventions in Brazil and elsewhere. The Bank has completed a Social Protection Strategy Review paper for the Caribbean, including a focus on Jamaica. The objective of the strategy is to strengthen the Bank's ability to support clients on social protection through: (i) better understanding the key socio-economic risks, existing country-level social protection programs, coverage and implementation gaps, and outstanding country-level needs; (ii) stronger coordination with country counterparts and donors; and (iii) more strategic emphasis on the Bank's comparative advantage in the region. A Caribbean regional study on Migration, Remittances and the Diaspora will examine the impact of migration and its implications for public policy decisions surrounding the financing of higher education and skills development; the impact, facilitation, and potential leverage of remittance flows; and the potential for the growth of niche markets among the diaspora. This work will be undertaken in close collaboration with other donors, most notably the IDB. Additional planned regional studies cover issues related to pension reform, health financing, and the infrastructure and financial sectors

C. Financial Relations[1]

(In millions of U.S. dollars)

Project	Original Amount	Available	Disbursed Outstanding
National Community Development Project	15.0	6.7	8.3
JM - Reform of Secondary Education Project II	39.8	37.7	2.1
HIV/AIDS Prevention and Control Project (Second Phase)	15.0	10.6	4.4
Social Safety Net Project	40.0	20.7	19.3
JM Debt Management	0.3	0.2	0.1
Total	**110.10**	**75.90**	**34.2**

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual							Projections	
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Total disbursements	30.9	65.1	97.6	82.4	85.0	11.3	8.5	22.3	4.4
Repayments	74.1	70.1	56.9	45.7	44.9	47.4	43.4	39.3	45.0
Net disbursements	-43.2	-5.0	40.7	36.7	40.1	-36.1	-34.9	-17.0	-40.6
Interest and fees	25.9	22.8	21.6	20.3	21.9	18.9	17.5	20.7	22.3

JAMAICA—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

Jamaica joined the Inter-American Development Bank (IDB) in 1969. Since then, the IDB has approved 91 loans (76 projects) to Jamaica amounting to US$1.4 billion and 160 technical cooperation operations totaling US$52.2 million. IDB financial assistance has supported a wide range of infrastructural, environmental and social sector projects with a view to enhancing Jamaica's human resource and absorptive capacity and strengthening the foundation for private sector-led growth. In addition, the IDB has supported reforms aimed at strengthening the institutional and regulatory environment.

The IDB is the leading lender to Jamaica among multilateral development partners. As of March 2004, Jamaica's outstanding debt to the IDB stood at US$704 million representing 16 percent of Jamaica's total external debt and 61 percent of Jamaica's multilateral debt. Out of this outstanding debt, US$687 million were public sector loans and US$17 million were private sector loans. With respect to the loan terms, 46 percent is on Ordinary Capital (OC) terms, 43 percent on Intermediate Financing Facility (IFF) terms and 8 percent on Fund for Special Operations (FSO) terms (see Table 1). Table 1 provides a breakdown of the outstanding portfolio by type of lending program showing the applicable weighted average interest rates which vary between 2 percent and 7 percent. The IFF provides an interest subsidy on OC lending of up to 5 percentage points of the OC interest rate, provided that the effective rate does not go below 3.38 percent. With 43 percent of the outstanding debt receiving IFF terms, this program provides substantial saving to Jamaica. Jamaica's eligibility to receive IFF terms is under review at the present time.

Table 1. Interest Terms on IDB Outstanding Debt

Type	Amount (US$m)	Weighted Average Interest Rate (percent)
Public sector	687.4	
OC	324.5	5.56
IFF	305.1	3.38
FSO	57.8	2.0
Private sector	17.0	7.08
Total debt outstanding	704.4	

At the present time, there are 14 loan projects and 22 technical cooperation projects in execution with total IDB contributions of US$350 million and US$10 million, respectively, (see Table 2). Thirty-five percent of the IDB project funds and 27 percent of the TC funds have been disbursed leaving some US$235 million available for disbursement. In addition, there are US$280 million in the pipeline, divided between 17 loan projects and 7 TCs. Despite the availability of these funds for disbursement to Jamaica, it is anticipated that the actual disbursement in 2004 will be small as a result of the fiscal and debt constraints that the Government of Jamaica faces. For the same reason, there is likely to be a concentration on TC assistance in order to maintain some level of development assistance to Jamaica. In this regard, attention may be drawn to a recently approved TC which provides assistance to Jamaica in the conduct of a major review of the tax system with a due to identifying reforms for promoting improved resource allocation and growth.

Table 2. Major Ongoing Projects

Project Category	Number	Amount (US$m.)	Percent Disbursed
Projects in execution	14	349.6	34.7
TCs in execution	22	9.9	27.4
Projects in pipeline	17	279.0	Not applicable
TCs in pipeline	7	2.4	Not applicable

Table 3 below shows the disbursement and repayment flows to Jamaica from 1997 to 2004. It can be observed that the net cash flow to Jamaica has been overwhelmingly negative during that period. This situation is expected to persist into the foreseeable future, given existing limitations on further borrowing from the IDB, as a result of the country's high debt ratio and fiscal constraints. Table 4 provides five-year projections of loan collections from Jamaica on IDB loans on the basis of the existing portfolio. These projections take into account both OC and FSO debt outstanding.

Table 3. Net Flow of IDB Convertible Currencies
(US$ million)

	1997	1998	1999	2000	2001	2002	2003	Proj. 2004
a. Loan disbursements	50.4	47.1	75.0	124.8	21.4	133.0	26.5	51.4
b. Repayments (principal)	35.2	29.3	40.8	41.5	36.8	45.0	53.5	51.3
c. **Net loan flow (a–b)**	**15.2**	**17.8**	**34.2**	**83.3**	**-15.4**	**88.0**	**27.0**	**0.1**
d. Interest and charges	29.7	30.5	31.9	34.0	38.1	37.1	38.4	40.4
e. **Net cash flow (c– d)**	**-14.5**	**-12.7**	**2.3**	**49.3**	**-53.5**	**50.90**	**-65.4**	**-40.3**

Table 4. Total Projected Loan Repayments, 2004–08
(Millions of U.S. dollars equivalent)

	2004	2005	2006	2007	2008
Principal	55.3	55.9	72.0	78.2	80.6
Interest	36.0	37.8	38.3	35.4	31.8
Total	**91.4**	**93.7**	**110.3**	**113.6**	**112.4**

JAMAICA—STATISTICAL ISSUES

In early 2003, Jamaica started participating in the Fund's General Data Dissemination System (GDDS), which provides participants with a framework for the development of the statistical system. The statistical base is adequate for surveillance despite weaknesses, however data is not sent separately to the GDDS.

Key websites for statistics on Jamaica:

Bank of Jamaica:	**http://www.boj.org.jm/**
Ministry of Finance and Planning:	**http://www.mof.gov.jm/**
Planning Institute of Jamaica:	**http://www.pioj.gov.jm/**
Statistical Institute of Jamaica:	**http://www.statinja.com/**

National accounts

There are weaknesses in the national accounts and other real sector data. In regard to estimates of GDP, concerns relate both to its level and growth rate. Addressing these shortcomings has been hindered, *inter alia*, by insufficient legal authority granted to the Statistical Institute of Jamaica (STATIN) to collect source data, as well as by institutional weaknesses, including a lack of resources. However, efforts are being made to effect some improvements to national accounts data, including updating the base year. Assistance on national accounts methodology was provided by Statistics Canada, and by a STA technical assistance mission in June 2001. The first publication of quarterly national accounts was issued in August 2002.

Prices

The index weights are derived from the Household Expenditure Survey conducted in 1984.The outdated weights of the published consumer price index (CPI) are derived from a household expenditure survey carried out in 1984. However, the base for the index is January 1988 and results in an apparent mismatch with the reference period of the weights.

Production

No data on industrial production indices, on wholesale or producer prices, on import volumes, or on export or import prices have been reported for publication in the *International Financial Statistics (IFS)* in recent years.

Government Finance Statistics (GFS)

These data are available at:
Debt: http://www.mof.gov.jm/dmu/
Budget: http://www.mof.gov.jm/programmes/em/fpmu/default.shtml

Data are not currently reported separately for publication in *IFS*. In 2005, the authorities reported data for 2003, in *GFSM 2001* format, for publication in the 2005 GFS *Yearbook*.

Monetary accounts

The published statistics for the Bank of Jamaica (BOJ) are sectorized, classified, and valued in accordance with international standards, and are published in a timely manner. The classification and structure of public entities need to be updated regularly in order to avoid the mixing of central government's accounts with the financial positions of public enterprises and to exclude those entities that are no longer in the public sector from the monetary accounts of the BOJ and commercial banks. Currently, information on deposit money banks and monetary authorities is being reported on a regular basis. A forthcoming mission from STA will assist the authorities to develop the standardized report forms of the monetary statistics.

Balance of payments

The BOJ compiles and disseminates balance of payments data on a monthly and annual basis. Detailed annual balance of payments data are reported by the BOJ for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *IFS*. At present, the BOJ does not compile International Investment Position (IIP) statistics although it has begun preparatory work with assistance from the Caribbean Regional Technical Assistance Center (CARTAC) and the European Union.

JAMAICA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE AS OF FEBRUARY 17, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	11/11/05	11/12/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	9/05	10/15/05	M	M	M
Reserve/Base Money	1/06	2/08/06	M	M	M
Broad Money	11/05	2/06	M	M	M
Central Bank Balance Sheet	1/06	2/08/06	W	W	W
Consolidated Balance Sheet of the Banking System	11/05	2/06	M	M	M
Interest Rates[2]	12/05	2/06	M	M	M
Consumer Price Index	11/05	1/18/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/05	1/31/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/05	1/31/06	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	11/05	1/31/06	M	M	M
External Current Account Balance	7/05	11/10/05	M	M	M
Exports and Imports of Goods and Services	7/05	11/10/05	M	M	M
GDP/GNP	Q2/05	10/11/05	Q	Q	Q
Gross External Debt	08/05	10/15	M	M	M

[1]Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

JAMAICA

Staff Report for the 2005 Article IV Consultation

Supplementary Information

Prepared by the Western Hemisphere Department

Approved by Ratna Sahay and Matthew Fisher

March 21, 2006

1. **This supplement provides an update on recent developments**. The thrust of the appraisal contained in the staff report is not qualitatively affected by these developments.

2. **Macroeconomic trends described in the staff report have continued**. Headline inflation was 12.4 percent (year-on-year) in February 2006, compared to 13 percent at end-2005—the same level projected for the end of the current fiscal year (FY 2005/06). Recent data confirm that an agricultural recovery is underway and tourist arrivals have been strong, as foreshadowed earlier. The projection in the staff report of real GDP growth of 2½ percent for FY 2005/06, therefore, remains appropriate.

3. **The exchange rate is continuing to come under intermittent pressure**. The Bank of Jamaica (BOJ) has maintained its key policy interest rate at 13 percent, unchanged since May 2005 despite the successive rounds of monetary tightening in the United States. This narrowing interest rate differential has continued to exert pressures on the external capital account. Following a brief period of stability in early 2006, the nominal exchange rate has resumed depreciating, losing about 1 percent of its value over the past six weeks. Central bank reserves fell by US$69 million in February, but remain comfortable at over US$2 billion, or four months of imports.

4. Revenues improved moderately in January, while revised budget estimates recently approved by parliament envisage some increase in spending during the remainder of the fiscal year. The authorities collected 88 percent of their originally targeted revenues for January, up from an average of 82½ percent during the fourth quarter of 2005. Monthly expenditures remained broadly in line with budgeted amounts. However, revised budget estimates recently approved by parliament envisage an increase in wages and salaries and other non-interest recurrent expenditures for the year as a whole by J$5.1 billion (0.8 percent of GDP), broadly in line with the projections in the staff report. The effect on the overall balance of the increased expenditures has been partially offset by lower-than-envisaged domestic interest payments. Nevertheless, with the persistent weaknesses in revenue performance, the overall deficit for FY 2005/06 is likely to be somewhat higher, and the primary surplus lower by 0.8 percent of GDP, than had been envisaged in the staff report.

Although uncertainties about the final fiscal outcome for FY 2005/06 remain on account of the pattern of strong seasonal revenue pick-up at the end of the fiscal year, recent developments underscore the staff's call for greater ambition in setting the FY 2006/07 budget targets.

Table 1. Jamaica: Summary of Central Government Operations
(In billions of Jamaican dollars)

	Budget	SM/06/101	Rev. Proj.
Budgetary revenue and grants	204.5	187.7	182.0
Tax	182.5	167.9	164.6
Nontax	17.8	18.0	16.0
Grants	4.2	1.7	1.4
Budgetary expenditure	204.5	203.5	200.5
Primary expenditure	116.9	115.9	115.8
Wage and salaries	61.4	63.1	63.2
Other expenditure	38.2	41.9	41.6
Capital expenditure 1/	17.3	10.9	11.0
Interest	87.6	87.6	84.7
Budget balance	0.0	-15.8	-18.5
Primary balance	87.6	71.8	66.2
Memorandum items:			
Budget balance (in percent GDP)	0.0	-2.4	-2.9
Primary balance (in percent GDP)	13.6	11.1	10.3
GDP (in billions of J$)	643	646	646

Sources: Jamaican authorities; Fund staff estimates and projections.

1/ Budget column includes deferred financing from previous years.

Public Information Notice (PIN) No. 06/43
FOR IMMEDIATE RELEASE
April 25, 2006

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with Jamaica

On March 24, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Jamaica.[1]

Background

Economic activity has been adversely affected by shocks. Real GDP contracted sharply in late 2004 following the devastating effects of Hurricane Ivan. Thereafter, while output recovered, it was dampened by the poor performance of agriculture, which suffered from adverse weather conditions, including a number of major hurricanes during July–October 2005. The hurricanes also caused infrastructure damage and led to a sharp temporary drop in tourist arrivals. Recent data indicate, however, that the agricultural recovery is firmly underway and tourist arrivals have picked up strongly.

Inflation remains high and volatile. Consumer prices registered a marked increase in the aftermath of Hurricane Ivan, reaching 13¼ percent at end-2004. Thereafter, annual headline inflation continued to pick up, reaching a high of 19 percent in September 2005, before falling back to 12.4 percent in February. Agriculture, which weighs heavily in the consumer price basket, was responsible for most of the surge in prices.
The upward spiral in energy prices also played a part since changes in international oil prices are fully reflected at the retail pump in Jamaica.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The external current account balance weakened on account of the shocks, with some reversal in capital flows occurring during the second half of 2005. Export performance weakened because of crop damage while imports shot up mainly due to higher oil prices. As regards the capital account, the government successfully tapped global financial markets to finance the budget at relatively favorable spreads and private inflows also strengthened in early 2005. As a result, net international reserves (NIR) increased rapidly through June 2005, before reversing course in the third quarter of 2005 as capital outflows led the Bank of Jamaica (BOJ) to step up market interventions to support the Jamaican dollar.

The nominal exchange rate has depreciated in recent months. After remaining relatively unchanged for about a year, the Jamaican dollar depreciated briskly during June–November 2005 and continued to weaken during February–March, 2006. In real effective terms, however, given the high inflation, the Jamaican dollar appreciated by 9 percent on average during 2005.

Fiscal targets have been missed. Hurricane Ivan was largely responsible for the failure to achieve both revenue and expenditure objectives in FY 2004/05. Relative to the authorities' targets, the revenue shortfalls have widened during FY 2005/06 as revenue collections have fallen. As regards expenditures, notwithstanding the flooding and infrastructure damage associated with the 2005 hurricanes, spending was kept under tight restraint—in particular, capital expenditures were squeezed further. Revised budget estimates recently approved by parliament, envisage, however, some increase in expenditures for the year as a whole, including on account of allowances and pensions. The budgetary shortfalls have been financed successfully, including through the very successful placement of several Eurobonds.

Monetary policy has been geared at containing inflation while also seeking to engender a sustainable reduction in interest rates. These policies, combined with successive rounds of monetary tightening in the United States, have narrowed the Jamaican-U.S. interest rate differential by about 330 basis points since end-2004. Nevertheless, with strong capital inflows, foreign exchange reserves increased rapidly through mid-2005. The reserve build-up was fully sterilized by sales of central bank bills. Foreign exchange reserves have however fallen modestly in recent months.

Executive Board Assessment

Executive Directors noted that, since late 2004, Jamaica's economy had experienced a series of major natural disasters, as well as external shocks arising from increases in oil prices and global interest rates. Output growth had slowed, inflation had risen more than envisaged, and the external current account balance had weakened. At the same time, revenue collection had also fallen sharply. These developments had put considerable strain on the authorities' medium-term socio-economic policy framework, whose aim of reducing the public debt burden was centered on balancing the budget for the current fiscal year—a goal that now appears out of reach. Directors noted that the near-term economic outlook remains vulnerable to shocks, and that the debt dynamics remain highly sensitive to macroeconomic volatility and market sentiment.

Against this background, and given the extraordinarily high level of public debt, Directors cautioned that the authorities have very limited room for policy maneuver, and urged them to remain steadfast in implementing the policies necessary to achieve the objectives of their macroeconomic strategy. Directors considered that ambitious fiscal consolidation and a prudent debt management strategy will be required to create a virtuous cycle of reduced debt, low inflation, and improved living standards for the Jamaican population. It will also be important to make further progress on structural reforms aimed at reducing the economy's vulnerabilities and improving long-term growth potential.

Directors noted that the authorities' strategy to reduce the debt-to-GDP ratio requires a strong, sustained fiscal effort. They considered it imperative to achieve a balanced budget as soon as feasible and to avoid recurring fiscal slippages. In this regard, Directors welcomed the authorities' continued commitment, despite difficult circumstances, to limit the size of deviations from fiscal targets and to eliminate deficits over the medium term. Most Directors concurred that the authorities' fiscal objectives should be more ambitious than currently envisaged. Moreover, if the economy improves more than is currently envisaged, Directors encouraged the authorities to target a balanced budget for FY 2006/07. Some Directors cautioned that there is not much scope for postponing infrastructure investment and social and poverty-reducing programs. Directors encouraged the authorities to develop contingency plans to deal with possible further shocks.

Directors noted that realizing the budgetary objectives for FY 2006/07 and beyond will require both revenue measures and expenditure discipline, while the medium-term fiscal outlook depends critically on the outcome of wage negotiations. They encouraged the authorities to consider measures to broaden the tax base, eliminate exemptions and preferences, and pursue tax delinquents in a more vigorous manner. Directors also underscored the importance of broader fiscal reforms aimed at increasing the productivity of the public sector, and at reforming public enterprises to limit the debt burden arising from off-budget entities. Directors urged the authorities to use new concessional debt to replace costlier financing, instead of expanding the overall expenditure envelope.

Directors emphasized the need for careful conduct of monetary and exchange rate policies in the period ahead, in view of the recent slowdown in growth and the narrowing interest rate differentials, which could exert pressures on the capital account.
They noted that a gradual, preemptive tightening of monetary policy is likely to prove more supportive of fiscal and growth objectives than an accommodative and reactive approach. A number of Directors viewed the recent portfolio shifts as transitory in nature, as financial market conditions have remained favorable and inflation expectations have fallen. In any event, Directors welcomed the authorities' readiness to increase interest rates, if warranted by the prevailing economic conditions.
They underscored the importance of maintaining a flexible exchange rate regime, aimed at safeguarding the external competitiveness of the economy.

Directors noted that robust and sustained economic growth is critical to the authorities' macroeconomic strategy. To this end, they urged the authorities to accelerate structural reforms, with a view to ensuring that the current high levels of investment translate into greater productivity and efficiency, and to improving the business environment in general. Tax reforms should be implemented in a comprehensive manner, aimed particularly at creating a level playing field and increasing transparency. In addition, efforts should be continued to improve access to credit, enhance labor market flexibility, and strengthen law and order. Given Jamaica's exposure to both adverse natural events and changes in financial market sentiment and the limited scope under the authorities' strategy to accommodate such risks, Directors emphasized the importance of persevering with efforts to strengthen institutional capacity to withstand such adversities.

Directors welcomed the authorities' participation in the Financial Sector Assessment Program and their commitment to continue to strengthen the resilience of the financial system in line with the recommendations. They welcomed improvements in recent years in the quality and structure of supervision and increases in capital levels in most financial institutions. Directors nevertheless saw scope for further developing supervisory capacity, strengthening the oversight of financial conglomerates, and tightening prudential requirements for securities dealers. They encouraged the authorities to continue to upgrade the statistical systems, with a view to subscribing to the Special Data Dissemination Standard. Expanding financial surveys to cover nonbank entities will be an important step in that regard. Directors also recommended that the authorities address remaining gaps in the AML/CFT framework.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Jamaica: Selected Economic Indicators 1/

	2000/01	2001/02	2002/03	2003/04	2004/05
	(Annual percentage changes)				
GDP, prices, and employment					
Real GDP	0.8	0.9	2.2	1.9	0.4
Nominal GDP	11.6	9.5	10.0	18.9	12.1
Consumer price index (end of period)	6.4	7.6	6.2	16.8	13.2
Consumer price index (average)	7.7	8.0	6.5	12.9	12.7
Exchange rate (end of period, in J$/US$)	8.3	4.0	17.9	1.7	0.9
End-of-period REER (percent change, appreciation +)	0.2	3.9	-14.2	-2.7	5.6
Unemployment rate (in percent)	15.5	14.8	14.2	11.8	12.2
	(In percent of GDP, unless otherwise indicated)				
Government operations					
Budgetary revenue	29.1	27.0	28.1	29.4	30.8
Budgetary expenditure	33.6	32.6	35.7	36.0	35.7
Primary expenditure	17.6	19.2	20.8	18.2	19.1
Interest payments	16.0	13.4	14.9	17.8	16.7
Budget balance	-4.5	-5.6	-7.6	-6.6	-4.9
Of which: primary fiscal balance	11.5	7.8	7.3	11.2	11.7
Off-budget expenditure 2/	0.3	0.5	3.2	3.1	2.2
Overall fiscal balance	-4.8	-6.1	-10.8	-9.7	-7.1
Public debt	132.0	135.1	148.0	143.7	137.9
External sector					
Current account balance	-6.7	-9.2	-15.2	-6.8	-6.1
Of which: exports of goods, f.o.b.	20.6	17.5	17.2	17.7	17.2
Of which: imports of goods, f.o.b.	41.4	36.8	43.8	39.7	40.5
Net international reserves (in millions of US$)	1,286	1,942	1,340	1,569	1,902
	(Changes in percent of beginning of period broad money) 3/				
Money and credit					
Net foreign assets 3/	23.0	24.3	-8.1	9.0	7.5
Net domestic assets	-13.8	-14.3	15.6	11.3	2.7
Broad money	9.2	10.0	7.5	20.2	10.3
Velocity (ratio of GDP to broad money)	2.4	2.6	2.7	2.6	2.6
Memorandum items:					
Nominal GDP (in billions of Jamaican dollars)	347	380	418	497	556
Exchange rate (end of period, J$/US$)	45.7	47.6	56.2	60.8	61.5

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31.
2/ Includes issuance of debt to the BOJ to cover its cash losses and related capitalized interest, and debt related to off-budget projects financed initially by the private sector.
3/ Including valuation adjustments.